

# Management's Discussion & Analysis



## SUCCESS STORY

### Brother and Sister Team Are SBA Small Business Persons of the Year

Missouri Star Quilt Company  
Hamilton, Missouri



**Alan Doan** took out a loan to buy a quilting machine and a small building to house it, and in 2008 he and his sister **Sarah Galbraith** launched Missouri Star Quilt Company. An SBA 504 loan in 2013 enabled the business to build a 45,000 square-foot facility for warehousing and shipping, customer service, sales, and a photo/catalog studio. Missouri Star Quilt is a unique combination of e-commerce and a bustling brick and mortar operation that has brought new life to the city of Hamilton.

Quilting tutorials posted on YouTube and hosted by Alan and Sarah's mother Jennie were widely viewed, boosting the company's image and engaging potential customers. The company now ships hundreds of packages every day to customers all over the globe. The brick and mortar shop has become a quilting destination.

Missouri Star Quilt now owns 15 buildings that encompass 116,365 square feet. With 148 employees, it is the largest employer in Caldwell County, Missouri. The net worth of the operating company has grown from \$60,576 in 2011 to \$206,608 in 2013.

In a May 2015 ceremony and reception in Washington, D.C., SBA Administrator Maria Contreras-Sweet recognized Alan Doan and Sarah Galbraith as SBA's *2015 National Small Business Persons of the Year*.

## PRIMER OF SBA'S PRINCIPAL PROGRAMS

### CAPITAL ([www.sba.gov/financialassistance](http://www.sba.gov/financialassistance))

*The SBA has a total business loan portfolio of \$102.4 billion.<sup>1</sup>*

**7(a) Loan Guaranties** — The SBA offers government guaranties on loans (up to \$5.0 million) made by commercial lenders to help expand access to capital for business owners who face challenges in getting approved for financing. The SBA guarantees a portion of 7(a) loans made and administered by commercial lending institutions. Loans can be guaranteed for a variety of general business purposes.

**504 CDC Loan Guaranties** — These long-term, fixed-rate loans (up to \$5.5 million) support investment in major assets such as real estate and heavy equipment. Loans are delivered by certified development companies (CDC) which are private, non-profit corporations. CDCs work with the SBA and private lenders to provide the financing. The SBA guarantees the CDC's portion of these loans.

**Microloans** — The SBA provides loans to non-profit intermediary lenders, which are community-based organizations with experience in lending and technical assistance, that in turn make these loans (up to \$50,000) to small businesses needing small-scale financing and technical assistance for start-up or expansion.

**Surety Bonds** — A surety bond is a type of insurance that guarantees performance of a contract. If one party does not fulfill its end of the bargain, then the surety bond provides financial compensation to the other party. The SBA guarantees bonds issued by a surety company in order to encourage the surety company to provide bonds to small businesses.

### CONTRACTING ([www.sba.gov/contracting](http://www.sba.gov/contracting))

*The SBA leads federal efforts to deliver 23 percent of contracts to small businesses, 5 percent to women-owned and small disadvantaged/8(a) businesses, and 3 percent to HUBZone and service-disabled veteran small businesses.*

**Procurement Assistance to Small Businesses** — Small business contracts represent the largest form of direct monetary support for small business in the federal government. Within this goal are four sub-goals:

**Small Disadvantaged Businesses** — This program supports assistance through 8(a) Business Development and set-aside contracting for businesses owned and controlled by socially and economically disadvantaged individuals. Over the course of nine years, a firm is assisted in gaining resources to compete for federal contracts and for contracts in the private sector.

**HUBZone Small Businesses** — This program supports sole-source and set-aside contracting for firms located in economically disadvantaged geographical areas.

**Service-Disabled Veteran-Owned Small Businesses** — This program allows federal agencies to set-aside contracts for competition only among service-disabled veteran-owned small businesses.

**Women-Owned Small Businesses** — This program allows federal agencies to set-aside certain contracts for competition only among small businesses owned and controlled by women.

<sup>1</sup> The total portfolio of \$118.8 billion consists of all performing loans and defaulted loans that have not been charged off, including guaranteed business loans outstanding, guaranteed debentures, direct business loans and direct disaster loans, ARC 506, Dealer Floor Plan, 504 First Lien, and 504 Refi.

## ADVISING, MENTORING, AND TRAINING ([www.sba.gov/local-assistance](http://www.sba.gov/local-assistance))

*The SBA and its partners serve over 1 million small business clients a year through the following programs.*

**Small Business Development Centers** — SBDCs provide advising and training services to small businesses and prospective business owners using an extensive network of 63 lead centers managing more than 900 service delivery points throughout the U.S. and the insular territories.

**Women's Business Centers** — WBCs provide advising and training through more than 100 non-profit educational centers across the nation. They provide services on a vast array of topics, from how to write a business plan to programs specifically for veterans. Many WBCs provide multilingual services, and a number offer flexible hours allowing for mothers with children to attend training classes.

**Veterans Business Outreach Centers** — SBA's 15 VBOCs provide counseling and training services to veteran-owned and service-disabled veteran-owned small businesses and entrepreneurs, along with reserve component members starting new small businesses or expanding established small businesses.

**SCORE** — SCORE is a non-profit association comprised of nearly 11,000 volunteer business mentors that serve entrepreneurs with in-person mentoring and local training workshops. As the largest volunteer business mentor network in the federal government, SCORE adapts its structure and services to meet the needs of the small business.

## EXPORTING ([www.sba.gov/oit](http://www.sba.gov/oit))

*The SBA provides loans to exporters and training assistance to small businesses.*

**Export Loans** — The SBA provides several different types of export loans, including SBA Export Express loans (up to \$500,000), Export Working Capital loans (up to \$5.0 million), and International Trade loans (up to \$5.0 million) that provide small businesses with enhanced export financing options to develop foreign markets, fund their export transactions, and/or support business expansion due to exporting success. The SBA provides technical assistance on trade finance and funding questions through staff located in U.S. Export Assistance Centers.

**U.S. Export Assistance Centers** — USEACs are staffed by professionals from the SBA, the Department of Commerce, and the Export-Import Bank. Together, their mission is to help small and medium-sized businesses compete in today's global marketplace by providing export marketing and finance assistance.

## HIGH-GROWTH SMALL BUSINESSES ([www.sba.gov/inv](http://www.sba.gov/inv))

*The SBA supports high-growth investments through a portfolio of \$10 billion in outstanding leverage.*

**SBIC** — Small Business Investment Companies are privately owned and managed investment funds that use their own capital plus funds borrowed with an SBA guaranty to make equity and debt investments in qualifying small businesses.

**SBIR/STTR** — The Small Business Innovation Research and State Technology Transfer Research programs are highly competitive funding agreements program that stimulate high-tech innovation by reserving a specific percentage of federal research and development funds for small business. SBIR/STTR enables the small business to compete on the same level as larger businesses.

## DISASTER ASSISTANCE ([www.sba.gov/disaster](http://www.sba.gov/disaster))

*The SBA has a portfolio of \$6.3 billion in direct disaster loans to businesses, homeowners, and renters.*

**Disaster** — The SBA is the federal government's primary source of financing for the long-term repair and rebuilding of disaster-damaged private property for homeowners, renters, businesses of all sizes, and private non-profit organizations. It is the only form of SBA assistance that is not limited to small businesses.



## EXECUTIVE SUMMARY

America's 28 million small businesses play a critical role in job creation and retention. During the last two decades, small businesses have been responsible for creating two out of every three net new jobs. In turn, the U.S. Small Business Administration's assistance to those firms and entrepreneurs helps drive a healthy economy.

The SBA employs a variety of methods to support America's small businesses. These methods include promoting access to capital; federal contracting; advising, mentoring, and training; and disaster assistance.

Throughout FY 2015, three goals from the SBA's *FY 2014-2018 Strategic Plan* guided the Agency's actions:

1. *Growing businesses and creating jobs*
2. *Serving as the voice for small business*
3. *Building an SBA that meets the needs of today's and tomorrow's small businesses*

The following sections highlight financial and performance results for the Agency, including the four Agency Priority Goals and federal Cross-Agency Priority (CAP) Goals. In-depth analysis can be found in the Analysis of Financial Results and Analysis of Performance Results sections. The complete set of performance results will be reported in the Annual Performance Report to be released in February 2016.

### Financial Results

For FY 2015, SBA's total budgetary resources used for staffing, operations, and subsidy costs were \$2.8 billion and \$7.5 billion in nonbudgetary resources for loan financing used to purchase guaranteed loans in default and to make direct loans. SBA's guaranteed portion of the outstanding loan principal rose 5.8 percent in FY 2015, to \$88.3 billion. New guaranties disbursed by SBA participating banks during FY 2015 were \$19.8 billion, a 9.9 percent increase this year that resulted in the 5.8 percent increase in outstanding guaranties. Purchases of defaulted guaranteed loans dropped again, falling from \$1.4 billion last year to \$1.1 billion this year. This encouraging trend is expected to continue in upcoming years as the nation moves further into economic recovery. The loan receivables portion of the SBA credit program portfolio continued to decline from \$6.9 billion to \$6.5 billion in FY 2015. The drop in loan receivables was caused by the decrease in purchases of defaulted guaranties, the liqui-

dation and charge-off of existing defaulted guaranties, a decrease in new disaster direct loan disbursements, and collections on existing disaster loans

### Performance Results

**Capital:** In FY 2015, the dollar amount of SBA's 7(a) loans increased by 23 percent, leading to a record year of approvals. Additionally, the 504 loan program met its FY 2015 target of \$4.3 billion. The SBA saw a net increase of gross approvals over the prior year by 20 percent. In all, the SBA approved more than 69,000 loans, supported 61,000 businesses, and provided nearly \$33.2 billion in both business and disaster loans.

FY 2015 reflected the sixth consecutive year of growth in the financing of businesses by small business investment companies (SBICs). SBIC is a zero subsidy guaranty debenture program underpinned by a portfolio of public-private partnerships investing in small and typically technology-oriented high-growth businesses. More than \$6 billion was invested in 1,210 small businesses. Capital deployments increased 15 percent year-over-year and increased 95 percent since FY 2012.

**Contracts:** The SBA continues to work with agencies across the federal government to expand small business contracting opportunities. Between FY 2011 and FY 2014, small businesses accessed more than \$356 billion in federal contracts (FY 2015 contracting numbers continue to be collected and certified).

**Counseling:** The SBA provides mentoring, business advice, and training assistance to more than 1 million entrepreneurs and small businesses each year. In FY 2015, these efforts helped entrepreneurs obtain \$4.7 billion in capital for their businesses.

**Disaster Assistance:** Disaster loan applications and approvals declined compared to prior years, which included the second costliest disaster in U.S. history, Hurricane Sandy. In FY 2015, the Agency worked on 255 active disaster declarations and approved more than 11,400 disaster loans to homeowners and small businesses totaling more than \$371.6 million.

## Agency Priority Goals and Outcomes

The Government Performance and Results Modernization Act of 2010 (GPRAMA) requires federal agencies to establish a set of two-year Agency Priority Goals (APGs) that reflect the highest priorities of agency leadership. The SBA has established four APGs. The goals and outcomes from this fiscal year are as follows:

- **Increase active lender participation.**
  - **Goal:** *Expand access to capital by adding 325 new or returning lenders to SBA's flagship 7(a) loan program each year in FY 2014-2015.*
  - **Outcome:** The SBA increased small business access to capital by adding new and returning lenders to the 7(a) loan program. While the Agency missed its FY 2015 target by 10 percent, 292 new lenders provided more than \$260 million in new loans to small businesses.
- **Maximize small business participation in government contracting.**
  - **Goal:** *Maximize small business participation in federal government contracting to meet the statutory goals and reduce participation by ineligible firms.*
  - **Outcome:** The SBA will continue to collect and certify FY 2015 contracting numbers through the third quarter of FY 2016. The Agency exceeded its FY 2014 target, making 24.99 percent of contracting dollars across the federal government available to small businesses.
- **Expand the base of lenders for small business exporters.**
  - **Goal:** *Increase access to export financing by raising the number of export finance lenders to 555 and the number of participating small business exporters to 1,480 by FY 2015.*
  - **Outcome:** The SBA met 93 percent (514 lenders) of its FY 2015 export lender goal and exceeded its FY 2015 target of small businesses assisted by 2 percent (1,513 small businesses assisted).
- **Increase the disaster loan application rate.**
  - **Goal:** *By September 30, 2015, increase the return rate of disaster survivor applications by 10 percentage points (from a 24 percent to a 34 percent return rate).*
  - **Outcome:** This year, the SBA had a return rate of 98 percent due to process improvements and improving customer service touch points. Due to the successful impact of these efforts, this goal will be retired after FY 2016.

## Cross-Agency Priority Goals

The SBA also participates in many of the government-wide federal Cross-Agency Priority (CAP) goals. The CAP goals are Presidential priorities and are complemented by other cross-agency coordination and goal-setting efforts. A brief description of the CAP goals to which the SBA contributes follows.

- **Job Creating Investment:** Improve federal investment tools and resources, while also increasing interagency coordination to encourage job growth through foreign investment.
- **Cybersecurity:** Improve cybersecurity performance through ongoing awareness of information security, vulnerabilities and threats impacting the operating information environment. Ensure that only authorized users can access resources and information, and implement technologies and processes to reduce the risk of malware.
- **Customer Service:** Deliver world-class customer service to citizens by making it faster and easier for individuals and businesses to complete transactions and have a positive experience with government.
- **Smarter IT Delivery:** Improve outcomes and customer satisfaction with federal services through smarter IT delivery and stronger agency accountability for success.
- **Strategic Sourcing:** Expand the use of high quality, high value strategic sourcing solutions through this goal in order to improve the government's buying power and reduce contract duplication.
- **Benchmark and Improve Mission-Support Operations:** Improve administrative efficiency and increase the adoption of effective management practices. Agencies will do this by establishing cost and quality benchmarks of mission support operations, as well as by empowering decision-makers with better data to compare options, allocate resources, and improve processes.
- **Open Data:** Fuel entrepreneurship and innovation. They will improve government efficiency and effectiveness by unlocking the value of government data and adopting management approaches that promote the interoperability and openness of this data.
- **Lab to Market:** Increase the economic impact of federally funded research and development by accelerating and improving the transfer of new technologies from the laboratory to the commercial marketplace.
- **People and Culture:** Innovate by unlocking the full potential of the workforce of today and building the workforce needed for tomorrow.

## SBA BY THE NUMBERS

(Dollars in Millions)

		FY 2012	FY 2013	FY 2014	FY 2015
<b>Total Portfolio <sup>(1)</sup></b>		<b>\$ 104,443</b>	<b>\$ 109,758</b>	<b>\$ 114,434</b>	<b>\$ 118,767</b>
<b>Outstanding Principal Balance</b>					
<b>Capital <sup>(2)</sup></b>					
7(a) Loans	Dollars of Gross Loans Approved	\$ 15,153	\$ 17,868	\$ 19,191	\$ 23,584
504 Loans	Dollars of Gross Loans Approved	\$ 6,712	\$ 5,227	\$ 4,199	\$ 4,298
Microloans	Dollars of Gross Loans Approved to Microborrowers	\$ 45	\$ 53	\$ 54	\$ 51
Surety Bond	Dollars of Bid and Final Bonds Guaranteed	\$ 3,920	\$ 6,150	\$ 6,413	\$ 6,348
<b>Contracting <sup>(3)</sup></b>					
Prime Contracting	Dollars of Contracts Awarded to Small Businesses	\$ 89,923	\$ 83,143	\$ 91,682	N/A
HUBZone Small Businesses	Dollars of Contracts Awarded to HUBZone Small Businesses	\$ 8,140	\$ 6,245	\$ 7,000	N/A
Small Disadvantaged Businesses	Dollars of Contracts Awarded to Disadvantaged Small Businesses	\$ 32,334	\$ 30,616	\$ 34,700	N/A
Women-Owned Small Businesses	Dollars of Contracts Awarded to Women-Owned Small Businesses	\$ 16,180	\$ 15,365	\$ 17,200	N/A
Service-Disabled Veteran-Owned Small Businesses	Dollars of Contracts to Awarded to Service-Disabled Veteran-Owned Small Businesses	\$ 12,256	\$ 12,023	\$ 13,500	N/A
<b>Advising, Mentoring, and Training <sup>(4)</sup></b>					
Small Business Development Centers (SBDCs)	Number of Clients Advised and Trained	543,512	532,377	485,487	449,964
Women's Business Centers (WBCs)	Number of Clients Advised and Trained	136,951	133,765	140,037	140,716
SCORE	Number of Clients Mentored and Trained	458,773	345,902	442,374	339,521
SBA Learning Center	Number of Clients Trained Online	220,596	150,355	182,002	139,719
Veteran's Business Outreach Centers (VBOCs)	Number of Clients Advised and Trained	88,614	73,062	75,393	55,899
<b>Exporting</b>					
Export Loans	Dollars of Gross Loans Approved	\$ 926	\$ 1,191	\$ 1,341	\$ 1,454
<b>High-growth Small Businesses</b>					
SBIC	Dollars of SBA Debenture Leverage Committed to SBICs	\$ 1,924	\$ 2,156	\$ 2,549	\$ 2,553
	Dollars of SBIC Debenture Capital to Small Businesses	\$ 2,950	\$ 3,256	\$ 5,465	\$ 6,286
<b>Disaster</b>					
Disaster Assistance <sup>(2) (5)</sup>	Dollars of Gross Loans Approved	\$ 690	\$ 2,797	\$ 332	\$ 372

(1) The total portfolio consists of guaranteed business loans outstanding, direct business loans, and direct disaster loans. The data include all performing loans and defaulted loans that have not been charged off. In previous Agency Financial Reports, the SBA has not included ARC 506, Dealer Floor Plan, 504 First Lien, and 504 Refi in the portfolio total. The SBA has updated the data for FY 2012-2015 to include these programs in the totals.

(2) The SBA tracks loan data in three ways: Gross Loans Approved (the total loans approved); Net Loans Approved (gross loans approved plus any loan increases minus any cancellations); and Disbursed Loans (the amount that is actually given to the borrower). Gross Loans Approved is presented in the Capital and Disaster Assistance sections because it is the only loan data that remain constant over time.

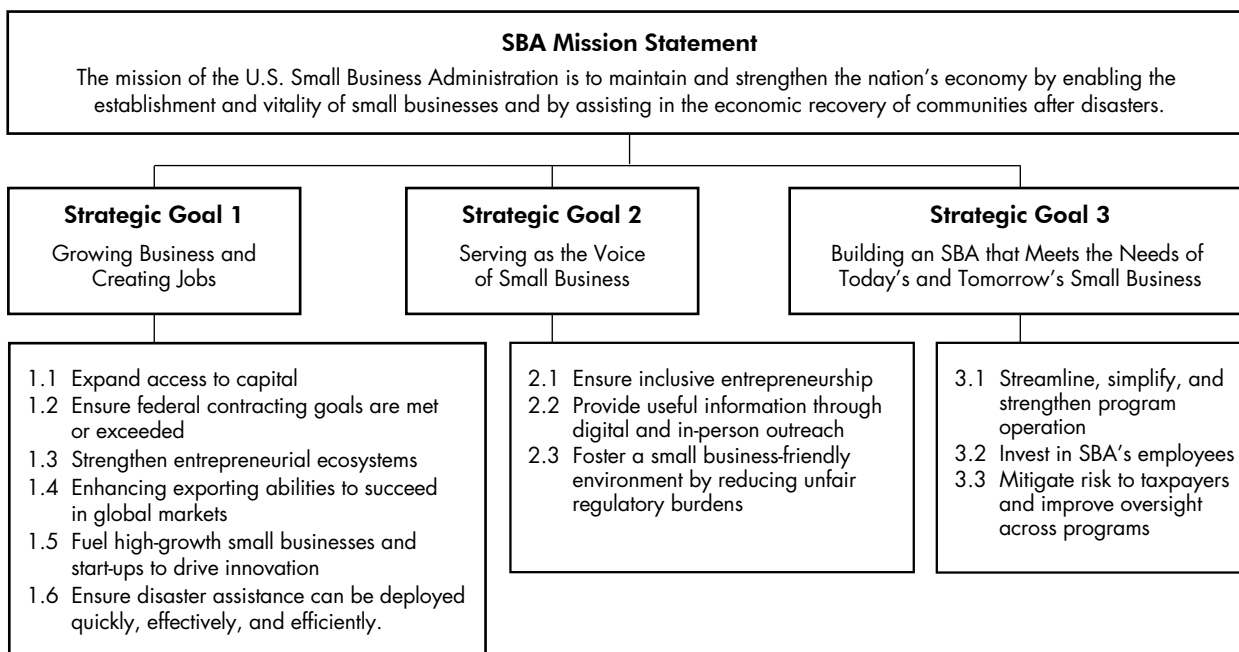
(3) FY 2015 contracting numbers will continue to be collected and certified through the third quarter of FY 2016. Therefore, FY 2014 numbers are reported per OMB Circular A-11.

(4) Counseling is now referred to as "advising" and "mentoring." The way these numbers are calculated has not changed. Resource partners may input data up to 45 days after the close of the fiscal year.

(5) The significant increase in FY 2013 disaster loan approvals is attributable to Hurricane Sandy.

## SBA'S HISTORY AND ORGANIZATION

In 1953, Congress created the U.S. Small Business Administration to “aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns.” SBA’s headquarters is located in Washington, D.C. while its business products and services are delivered with the help of field personnel and a vast network of private sector and non-profit partners in each U.S. state and territory. SBA’s *FY 2014-2018 Strategic Plan*<sup>2</sup> includes the following strategic goals:



Major SBA offices fall under one of these three strategic goals:

### STRATEGIC GOAL ONE – Growing businesses and creating jobs

*The Office of Capital Access* assists small businesses in obtaining capital via the 7(a), 504, and Microloan programs, and bonds through the Surety Bond Guarantee program.

*The Office of Disaster Assistance* provides affordable, timely, and accessible financial assistance to homeowners, renters, and businesses following a disaster. The Disaster Loan program is the only form of SBA assistance that is not limited to small businesses. Disaster funding is deployed quickly, effectively, and efficiently in order to preserve jobs and help return small businesses back to operation.

*The Office of Entrepreneurial Development* provides business advising, mentoring, and training assistance through its resource partner network composed of small business development centers, women's business centers,

and SCORE, as well as through the Regional Innovation Clusters, Entrepreneurship Education, SBA Learning Center, and Emerging Leaders programs. In addition, SBA's district offices support coordination between SBA resource partners and local small business communities.

*The Office of Government Contracting and Business Development* provides assistance to small businesses in competing for federal contracting opportunities through the government-wide prime and subcontracting programs. This includes HUBZone, 8(a) business development, 7(j) technical assistance, women-owned, and veteran-owned small businesses. The office also sets size standards for small businesses, which determine the size a business must be to be considered a small business.

*The Office of International Trade* enhances the ability of small businesses to export and compete in the global marketplace by facilitating access to capital, providing technical assistance, ensuring the consideration of small business interests in trade negotiations, and contributing to the U.S. government's international commercial and economic agenda.

*The Office of Investments and Innovation* assists high-growth small businesses through the Small Business Investment

<sup>2</sup> SBA's Strategic Plan is located at: [www.sba.gov/about-sba/sba-performance/strategic-planning/sba-strategic-plan-fiscal-years-2014-2018](http://www.sba.gov/about-sba/sba-performance/strategic-planning/sba-strategic-plan-fiscal-years-2014-2018).



Company, Small Business Innovation Research, Small Business Technology Transfer, and other tailored programs that drive innovation and competitiveness.

## STRATEGIC GOAL TWO – Serving as the voice for small business

Strategic Goal Two focuses on underserved communities and outreach to ensure that all small businesses receive equal representation in the marketplace. SBA's Office of Capital Access, Office of Entrepreneurial Development, and Office of Government Contracting and Business Development (all defined under Strategic Goal One) each have programs that support underserved communities.

*The Office of Communications and Public Liaison* communicates the Agency's programs and priorities to small businesses, SBA resource partners, and the public at large by working with media outlets, developing social media content, creating user-friendly online resources, crafting high quality marketing materials, organizing events to gain feedback from small businesses, coordinating strategic partnerships, and overseeing faith-based initiatives.

*The Office of Field Operations* is the SBA's front-line operating team. Most SBA programs and services are executed when small businesses connect with their regional, district, and branch offices, which are located in each state and territory.

*The Office of the National Ombudsman* works with all federal agencies that regulate small business to provide a means for businesses to comment on federal government enforcement activity. This includes audits, on-site inspections, compliance assistance efforts, and other enforcement efforts. The office also maintains a five-member Regulatory Fairness Board in each of SBA's ten regions to hold public hearings on small business concerns.

*The Office of Intergovernmental Affairs* facilitates continuous and bilateral communications between the SBA and state and local governments, American Indian, Alaska Native, and Native Hawaiian tribal governments, as well as insular governments. This office gains knowledge of the various governments' actions, concerns, issues, and supporting programs.

*The Office of Veterans Business Development* ensures availability, applicability, and usability of all Administration small business programs for veterans, service-disabled veterans, reserve component members, and their dependents or survivors. The office accomplishes its work through veterans business outreach centers, the Boots to Business program,

Entrepreneurship Boot Camp for veterans with disabilities, and partnerships with other federal and non-profit agencies.

*The National Women's Business Council* is a nonpartisan federal government council created to serve as an independent source of advice and policy recommendations to the President, Congress, and the SBA Administrator on issues of economic importance to women business owner.

## STRATEGIC GOAL THREE – Building an SBA that meets the needs of today's and tomorrow's small businesses

SBA's management offices primarily support Strategic Goal Three. Each program office, discussed in Strategic Goals 1 and 2, maintains a key role ensuring that the Agency mitigates risk in its programs.

*The Office of the Chief Information Officer* provides information technology leadership, product services, and operational support for the SBA in order to maximize internal efficiency and responsiveness to small businesses.

*The Office of Credit Risk Management* focuses on mitigation of risk to taxpayers through ever-improving risk management and oversight of SBA lending programs.

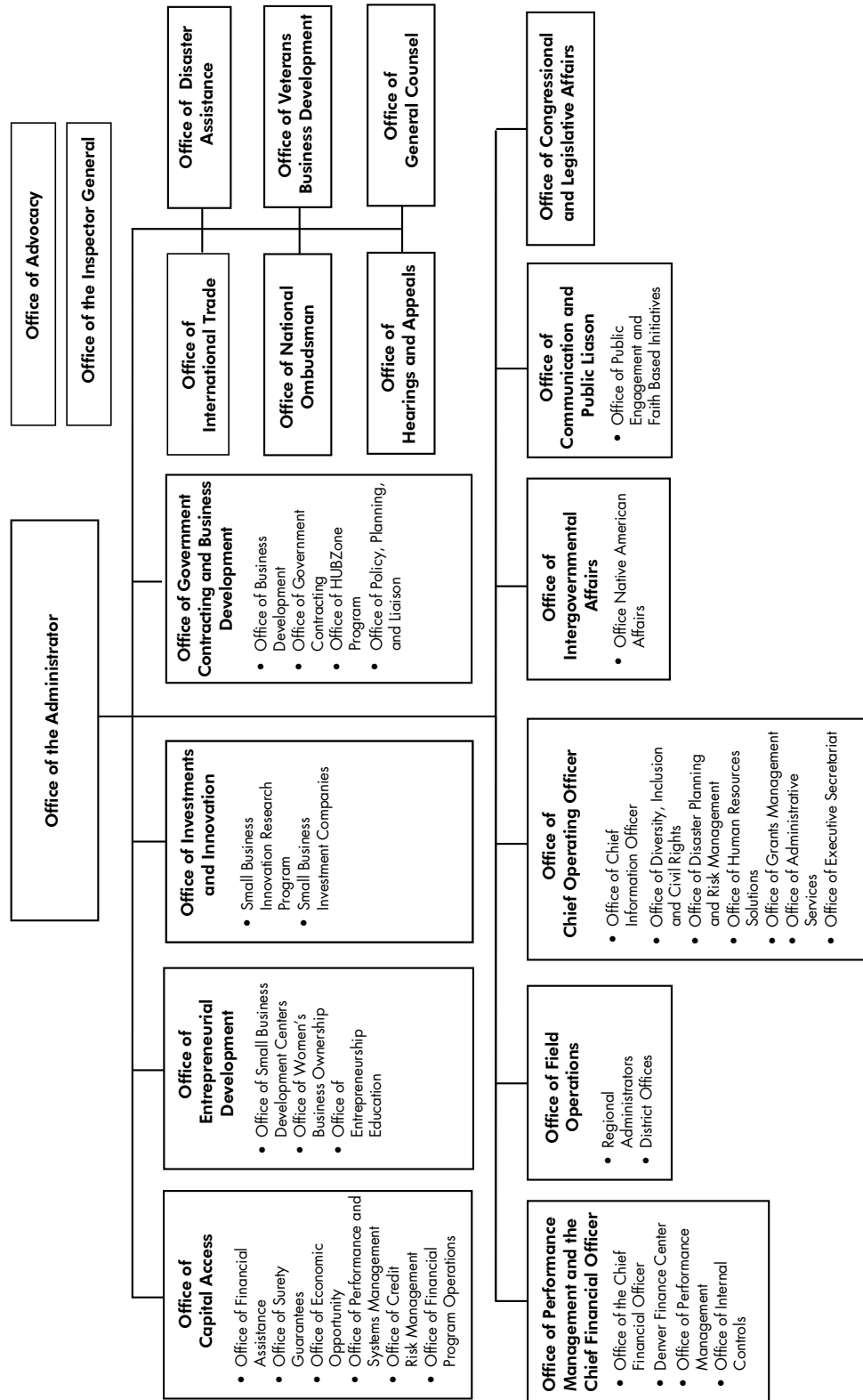
*The Office of Diversity, Inclusion, and Civil Rights* serves a diverse workforce by maintaining an inclusive culture and ensuring equal access and equitable treatment regarding employment and entrepreneurial endeavors.

*The Office of Human Resources Solutions* provides strategic human capital solutions to workforce issues and strives to create a work environment that attracts and retains a talented and high-performing workforce.

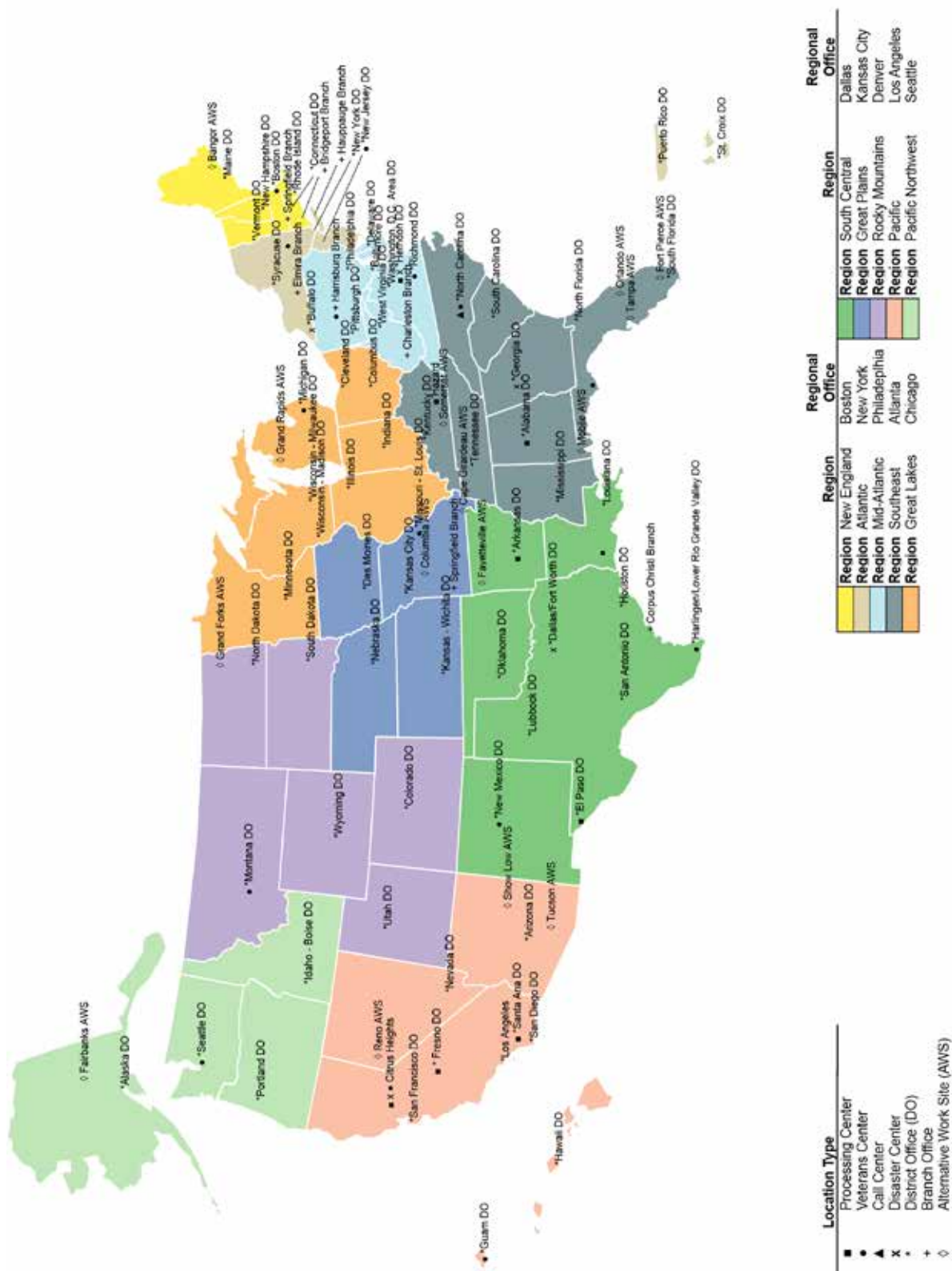
*The Office of Performance Management and Chief Financial Officer* provides Agency performance management, financial, and acquisition oversight. The office is responsible for Agency disbursements, management, and coordination of Agency planning, budgeting, analysis, and accountability processes.

Other support offices include the *Office of Congressional and Legislative Affairs*, *Office of General Counsel*, and *Office of Hearings and Appeals* that support the strategic goals and objectives.

## SBA ORGANIZATION CHART



## SBA REGIONS AND FIELD OFFICES



## ANALYSIS OF PERFORMANCE RESULTS

### Analysis of Performance and Agency Priority Goals

The following section presents key SBA FY 2015 performance data, including the four FY 2014-2015 Agency Priority Goals identified by SBA leadership that are critical to the success of SBA's mission. While the Agency Priority Goals are two-year goals, the FY 2015 results are measured against FY 2015 targets.

The presentation of the performance data and analysis is organized by strategic objective, which follows SBA's *FY 2014-2018 Strategic Plan*. The following measures and analysis represent SBA's three strategic goals. Detailed performance information on all SBA programs will be presented, and all variances explained, in the FY 2017 Congressional Budget Justification and FY 2015 Annual Performance Report to be published in February 2016.

#### STRATEGIC OBJECTIVE 1.1: Expand access to capital through SBA's extensive lending network.

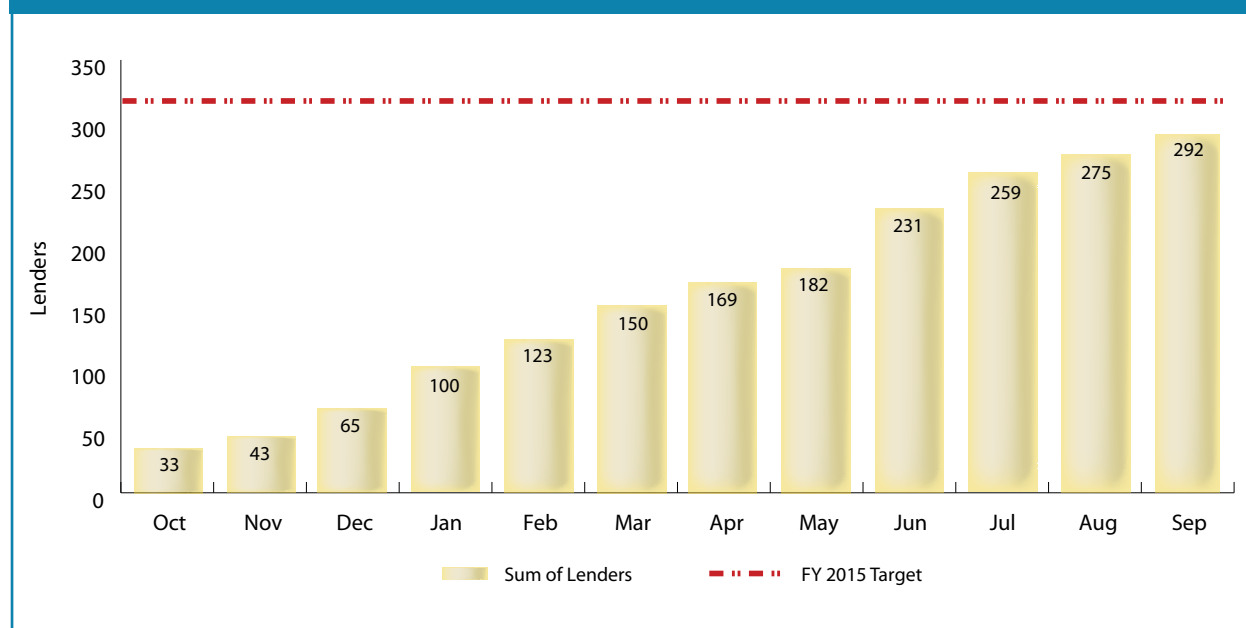
**Priority Goal:** Expand access to capital by adding 325 new or returning lenders to SBA's flagship 7(a) loan program in FY 2014 and FY 2015.

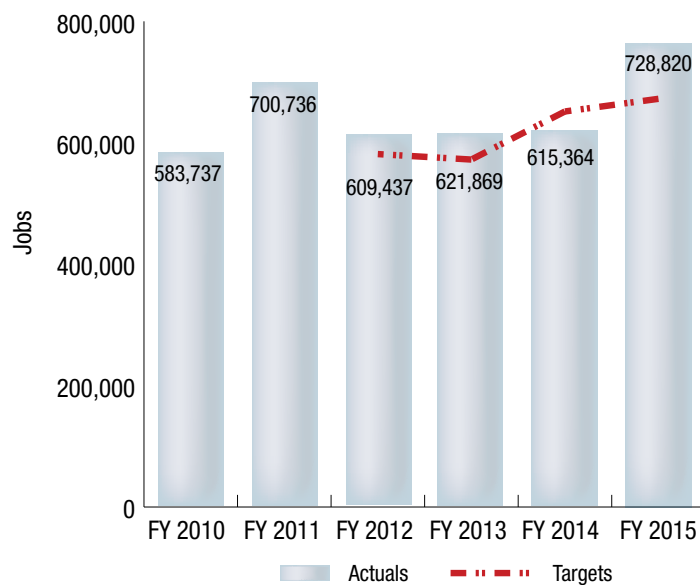
**Performance Analysis:** New and returning lenders are a major component of SBA's lending portfolio and are essential to growth in the quantity of loans approved and small businesses assisted. Attaining a high volume of new and returning lenders from one fiscal year to the next creates a consistent pipeline of SBA loans for small businesses. The SBA accomplished 90 percent of its FY 2015 target (292 new lenders) (see **Chart I**). These new and returning lenders made 752 loans totaling \$260.0 million. The number of new or returning lenders recruited slowed in the fourth quarter, particularly as fewer active lenders remain in business each year. However, the lending community has been responsive to SBA's strategy of fee relief for lower-dollar loans and loan program improvements.

**Performance Goal:** Support 688,650 jobs through capital assistance programs in FY 2015.

**Performance Analysis:** The number of jobs supported is an important outcome measure of the effectiveness of SBA financing. The measure tracks the number of jobs supported through the 7(a), 504, Microloan, and Surety Bond Guarantee programs. In FY 2015, the SBA supported 728,820 jobs, which is 6 percent above the target and an increase of 18 percent from FY 2014 (see **Chart II**). While the 504 loan program did not meet the FY 2015 target, continued streamlining of the loan process and

**CHART I** CUMULATIVE NUMBER OF 7(a) NEW OR RETURNING LENDERS



**CHART II** 7(a), 504, MICROLOAN, AND SURETY BOND GUARANTEE JOBS SUPPORTED

ensuring effective certified development companies should have a positive impact on future results.

**STRATEGIC OBJECTIVE 1.2: Ensure federal contracting goals are met and/or exceeded by collaborating across the federal government to expand opportunities for small businesses and strengthen the integrity of the federal contracting certification process and data.**

**Priority Goal:** Maximize small business participation in federal government contracting to meet the statutory goals and reduce participation by ineligible firms.

**Performance Analysis:** By law, 23 percent of federal government prime contracting dollars are set-aside for small businesses, including 5 percent of prime and subcontracts to small disadvantaged businesses and women-owned small businesses, and 3 percent of prime and subcontracts

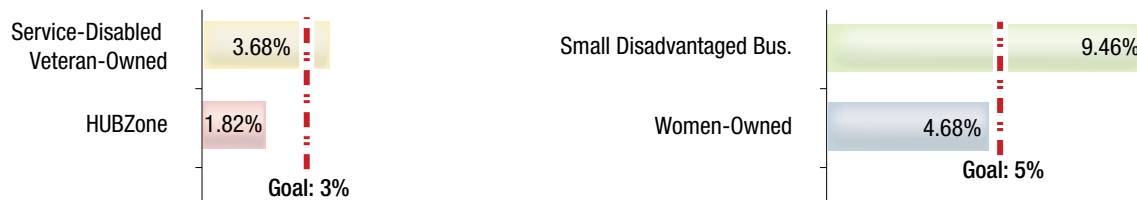
to HUBZone small businesses and service-disabled veteran-owned small businesses (see **Chart III**). In FY 2014 (the latest year of data available), the federal government surpassed its prime contracting goal; small businesses were awarded \$91.7 billion in contracting dollars, the highest percentage of contracting dollars awarded to small businesses since the 23 percent goal was established in 1997. Performance in all the small business prime contracting and socio-economic categories showed significant improvement, with increases in performance against statutory goals. The goal for service-disabled veterans was surpassed (FY 2014 result was 3.68 percent) for the third time, and small disadvantaged businesses exceeded the goal (FY 2014 result was 9.46 percent) due in part to the successful Mentor-Protégé program that fosters relationships between successful firms and disadvantaged small

businesses. The number of small business contracting dollars going to women-owned small businesses increased from 4.3 percent in FY 2013 to 4.68 percent in FY 2014. Although HUBZone continues to recruit new firms, the

**CHART III** PERCENT OF FEDERAL PRIME CONTRACT DOLLARS AWARDED TO SMALL BUSINESSES

Note: FY 2015 contracting numbers will continue to be collected and certified through the 3rd quarter of FY 2016.



**CHART IV** FY 2014 DISADVANTAGED SMALL BUSINESS GOALS

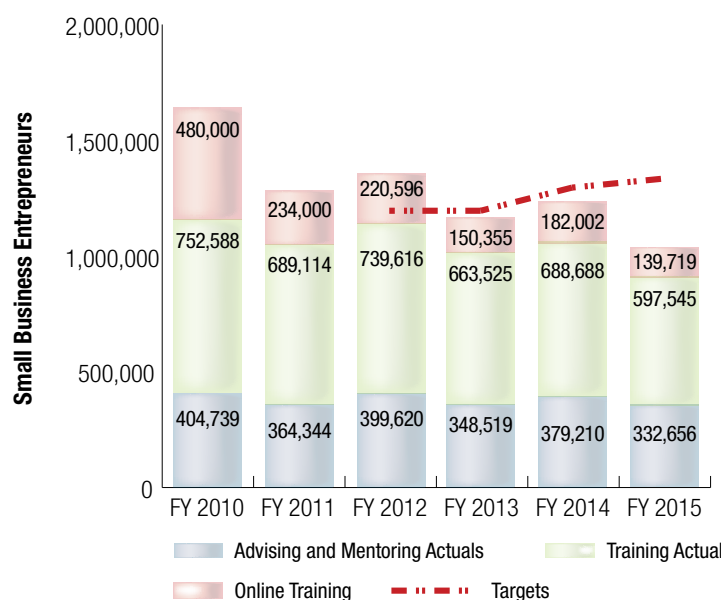
portfolio has not recovered from the loss of firms due to re-designation of areas from the 2010 census (see **Chart IV**). The SBA is collaborating with the White House and senior officials at each agency to ensure accountability for the government-wide small business contracting goals. This unprecedented amount of collaboration has ensured top-level leadership commitment to use small business across the federal government. FY 2015 contracting numbers will continue to be collected and certified through the third quarter of FY 2016. Therefore, FY 2014 numbers are reported, per OMB Circular A-11.

vices including the number of long-term clients served. To improve performance, the SBA standardized online courses to reduce cost and ensure consistent learner experiences. Furthermore, the WBC program streamlined its grant process, which helped WBCs spend more time delivering advising and training services.

**STRATEGIC OBJECTIVE 1.3: Strengthen entrepreneurial ecosystems<sup>3</sup> through a variety of strategic partnerships to provide tailored training, mentoring, and advising services that support entrepreneurs during every phase of their business growth.**

**Performance Goal:** Reach 1.35 million clients with online and in-person advising, mentoring, and training in FY 2015.

**Performance Analysis:** The SBA accomplished 79 percent of its performance target for advising, mentoring, and training assistance (see **Chart V**). Although FY 2015 data trended below FY 2014 levels, a greater emphasis was placed on increasing the quality of ser-

**CHART V** SMALL BUSINESS ENTREPRENEURS ADVISED, MENTORED, AND TRAINED

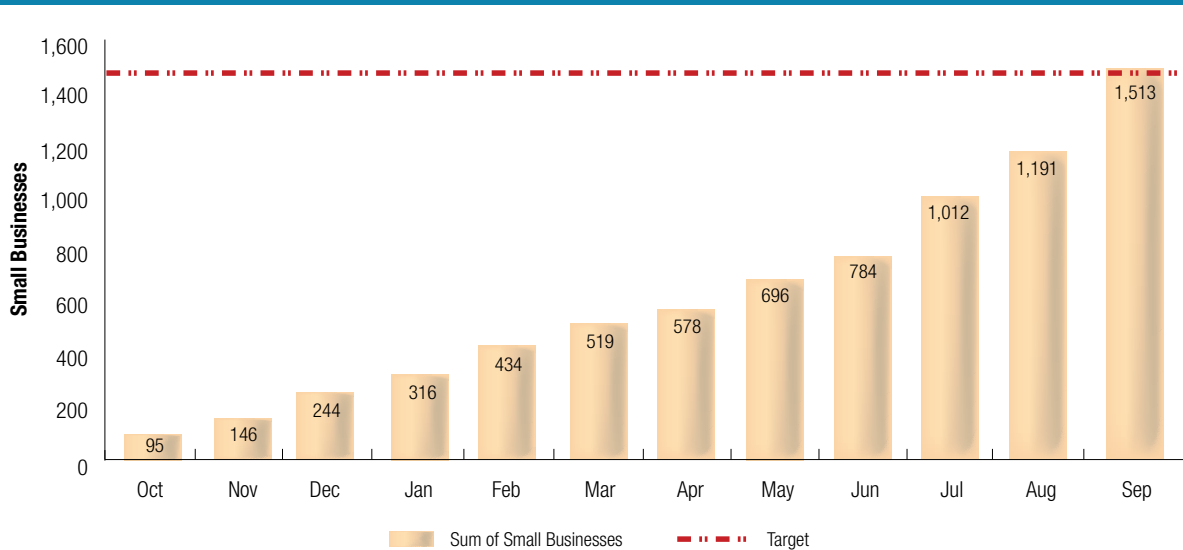
<sup>3</sup> The entrepreneurial ecosystem refers to external elements which contribute to the likelihood that a small business will be successful. This includes: access to markets, access to capital, technical support, finding and hiring qualified employees, making connections to suppliers, and infrastructure. The SBA addresses these needs through a variety of strategic partnerships with our resource partners.

**STRATEGIC OBJECTIVE 1.4:** Enhance the ability of current and future small business exporters to succeed in global markets by expanding access to financing, counseling, training, and other export tools.

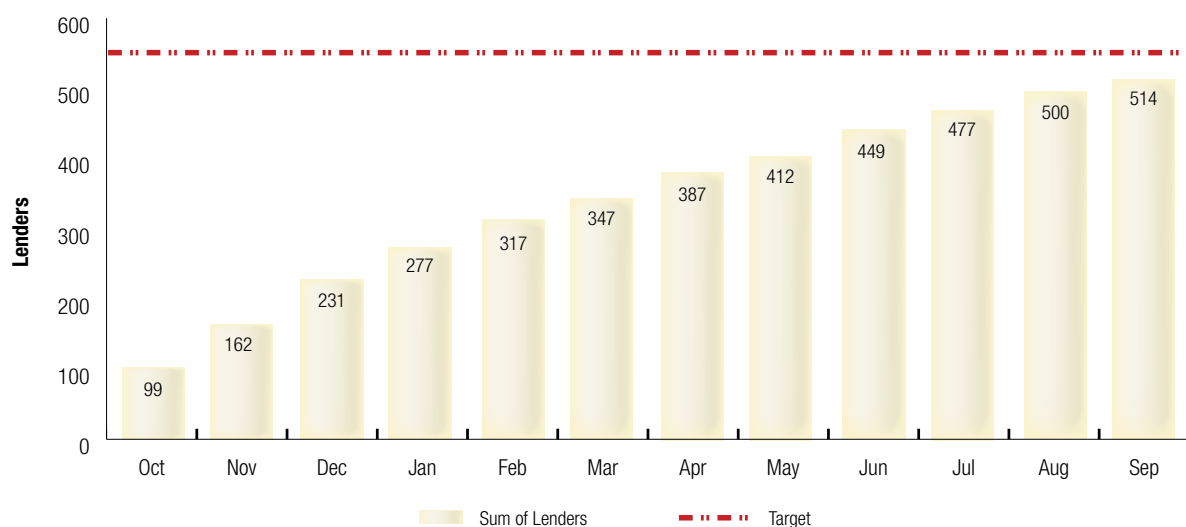
**Priority Goal:** Expand small business access to export financing by increasing the number of lenders providing export financing solutions to 555 and the number of small business exporters receiving financing through SBA loan programs to 1,480 by FY 2015.

**Performance Analysis:** Increasing access to export financing, combined with trade counseling and training, contributes to the enhanced ability of current and future U.S. small business exporters to succeed in the global marketplace. The SBA met 93 percent of its FY 2015 target for lenders providing export financing solutions and exceeded its target for small businesses receiving export financing. The SBA assisted 1,513 small businesses in export financing, 2 percent above its target of 1,480 small businesses (see **Charts VI and VII**). Performance results were affected by staffing shortages in the field during the year. Fifteen percent of field trade

**CHART VI CUMULATIVE NUMBER OF SMALL BUSINESSES ASSISTED**



**CHART VII CUMULATIVE NUMBER OF EXPORT LENDERS**



finance positions were vacant for almost 9 months, impacting SBA's ability to increase the number of lenders active in supporting small business exporters with SBA financing. Also, the total number of active lenders is decreasing across the country each year due to bank consolidation, which means that there are fewer lenders to make export loans.

#### STRATEGIC OBJECTIVE 1.5:

Fuel high-growth entrepreneurship, innovation, and job creation by providing the tools small businesses need to start and grow their businesses.

**Performance Goal:** Issue \$2.5 billion in debenture leverage to small business investment companies (SBIC) in FY 2015.

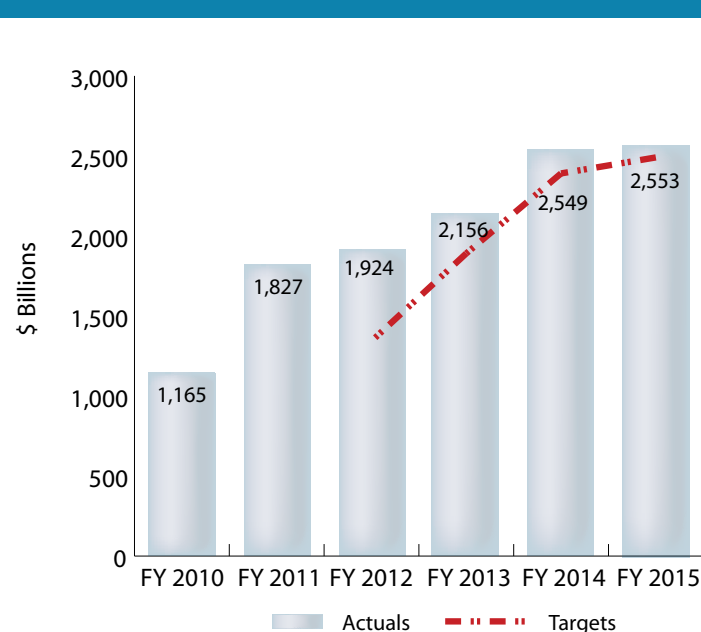
**Performance Analysis:** SBICs provide long-term loans and equity capital to small businesses. The SBICs are privately owned and managed investment funds that are licensed and regulated by the SBA. In FY 2015, the SBA exceeded its target for committing \$2.5 billion in debenture leverage to SBICs. This allowed SBICs to invest more than \$6 billion in 1,210 small businesses (see **Chart VIII**). At the same time that commitments for debenture leverage were increasing, the SBA licensed 25 new SBICs with an average time to license of 8.4 months.

**STRATEGIC OBJECTIVE 1.6:** Ensure that SBA's disaster assistance resources for businesses, non-profit organizations, homeowners, and renters can be deployed quickly, effectively, and efficiently in order to preserve jobs and help return small businesses to operation.

**Priority Goal:** By September 30, 2015, increase the return rate for disaster survivor applications by 10 percentage points (24 percent to 34 percent return rate).

**Performance Analysis:** Increasing the application return rate ensures that SBA's disaster assistance resources for businesses, non-profit organizations, homeowners, and renters are deployed quickly, effectively, and efficiently in order to preserve jobs and help return small

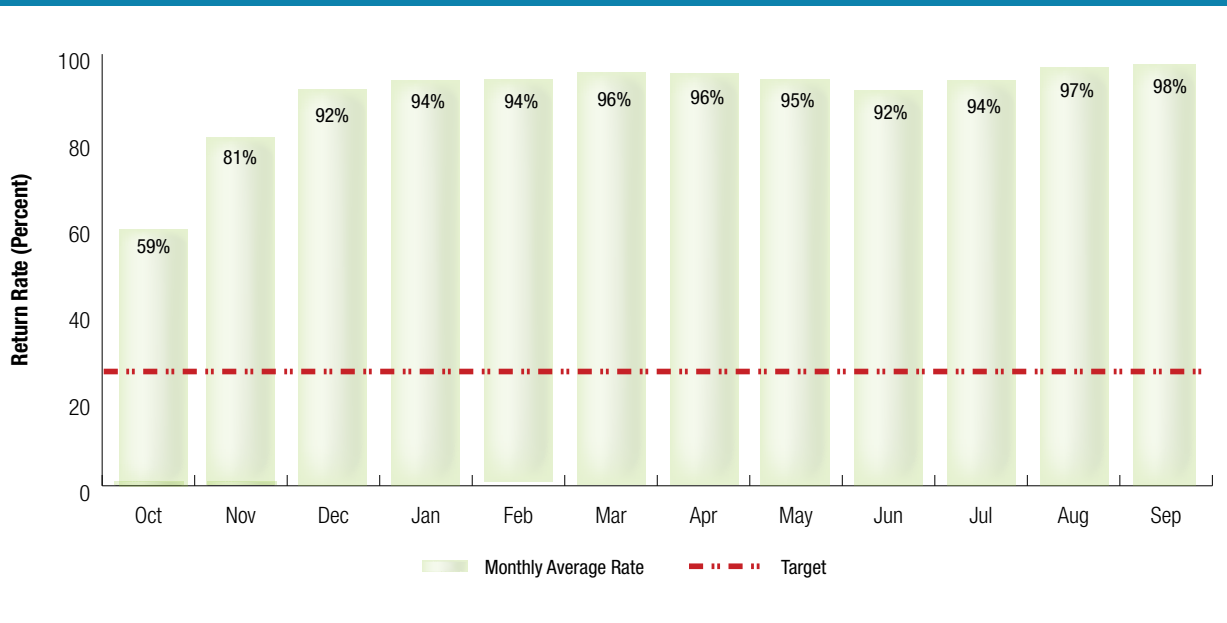
**CHART VIII CUMULATIVE SBIC DEBENTURE LEVERAGE COMMITTED**



businesses to operation. As a result of implementing a new process for issuing applications to disaster survivors, the SBA exceeded its target by 188 percent this year (see **Chart IX**). Each quarter the SBA successfully increased the disaster loan application return rate, going from 69 percent in FY 2014 to 98 percent in FY 2015. The SBA continues to improve disaster assistance by integrating user-friendly technology and streamlining the loan application process. For example, the electronic loan application rate increased to 84 percent in FY 2015, more than tripling the rate from FY 2011. Beyond this approach, the SBA has implemented several process improvements to its disaster response framework following the response to Hurricane Sandy, and new training has been developed to ensure consistent outreach across the country. Since implementing these improvements, the return rate for applications has significantly increased, leading to quicker loan processing for disaster survivors. Due to the successful impact of these efforts, this goal will be retired after FY 2016.

**Performance Goal:** Ensure the customer satisfaction rate for disaster loan approvals is 71 percent in FY 2015.

**Performance Analysis:** The SBA tracks customer satisfaction through an annual survey that uses the American Customer Satisfaction Index. The index synthesizes key points in the loan process, including the application, final

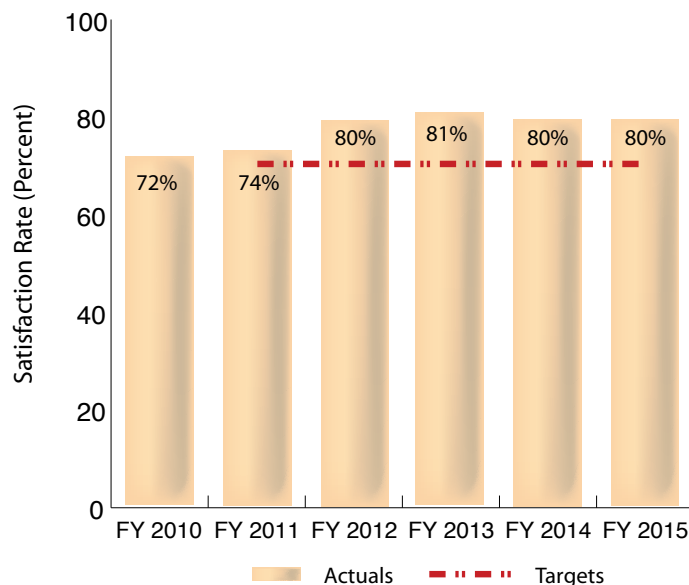
**CHART IX** RETURN RATE FOR DISASTER SURVIVOR APPLICATIONS

decision, and closing of the loan. The SBA had a customer satisfaction rate of 80 percent this year, 13 percent above the 71 percent target (see **Chart X**). The high satisfaction rate is attributable in part to the streamlined process for issuing applications to disaster survivors (i.e. using call centers to promote the use of electronic loan applications) and the use of electronic loan applications. This approach is having a direct, positive impact on disaster survivors by increasing customer attention and service, resulting in improved customer satisfaction ratings.

## STRATEGIC OBJECTIVE

**2.1: Ensure inclusive entrepreneurship by expanding access and opportunity to small businesses and entrepreneurs in communities where market gaps remain.**

**Performance Goal:** Assist 32,250 underserved small businesses through capital assistance programs and 18,025 underserved small businesses through contracting programs.

**CHART X** CUSTOMER SATISFACTION RATE FOR DISASTER LOAN APPROVALS

**Performance Analysis:** Underserved communities – including women, low-income, minority, and veteran entrepreneurs – often have difficulty accessing capital and federal contracts. For capital assistance programs, including 7(a), 504, and Microloans, the SBA assisted 35,819 underserved small busi-

nesses – exceeding the FY 2014 result by 2 percent (see **Chart XI**). The elimination of the fees on small dollar loans (\$150,000 or less) was extended to FY 2015, attributing to the increase in number of small businesses assisted. Also, the streamlined application process that uses credit scores instead of a personal cash flow history analysis has greatly incentivized new lenders and made the loan application process more efficient.

For contracting programs, including 8(a) and HUBZone, the SBA assisted 15,437 underserved small businesses (see **Chart XII**). While the results improved from FY 2014, the increase can be attributed to program and process improvements with the 8(a) program. Anticipated regulatory changes to expand the successful Mentor-Protégé program under the 8(a) program to other underserved markets will support more small businesses in FY 2016.

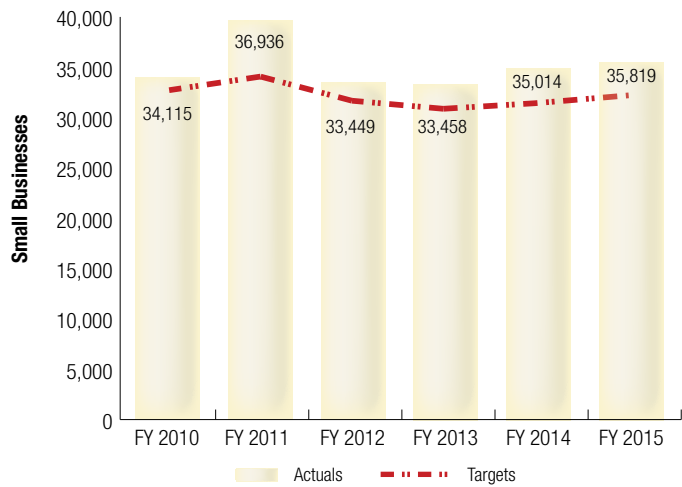
#### STRATEGIC OBJECTIVE 2.2:

Provide timely, instructive, and useful information to the small business community through SBA's extensive digital and in person outreach efforts.

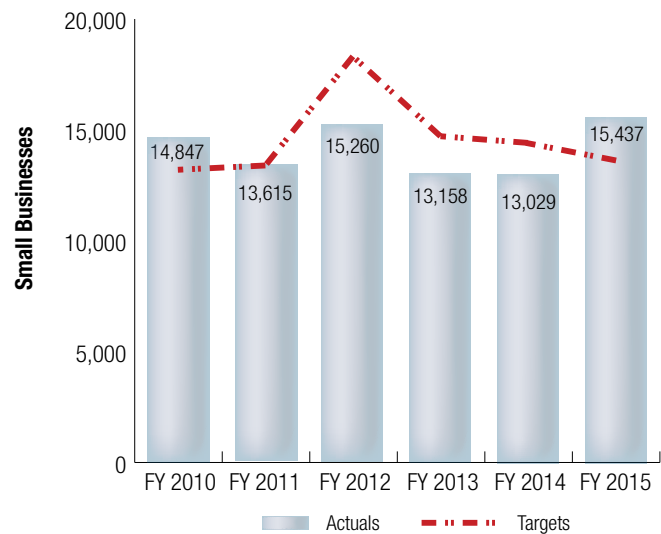
**Performance Goal:** Reach 2,300,000 average monthly SBA.gov site visits.

**Performance Analysis:** In FY 2015, SBA.gov averaged 2.2 million monthly site visits. This number is lower than the 2.4 million visitors in FY 2014 and below the 2.3 million target for visits in FY 2015 (see **Chart XIII**). While the SBA monitors this data using cookies, more site visitors used a Do Not Track feature that the SBA chose to respect, which caused the numbers to decline. To serve the one in four website visitors who access the website from a mobile device, the SBA launched the first phase of its mobile site in FY 2015. The Agency also launched a Spanish language website with mobile-accessible content to reach a more diverse small business community. The SBA began tracking the number of average monthly SBA.gov site visits in January of FY 2011, therefore the data for FY 2011 is partial.

**CHART XI** SMALL BUSINESSES IN UNDERSERVED MARKETS ASSISTED BY 7(a), 504, AND MICROLOANS



**CHART XII** SMALL BUSINESSES IN UNDERSERVED MARKETS ASSISTED BY 8(a), 7(j), AND HUBZONES





**STRATEGIC OBJECTIVE 2.3:**  
Foster a small business-friendly environment by encouraging federal agency awareness about the impact of unfair regulatory enforcement and compliance efforts and reducing burdens on small business.

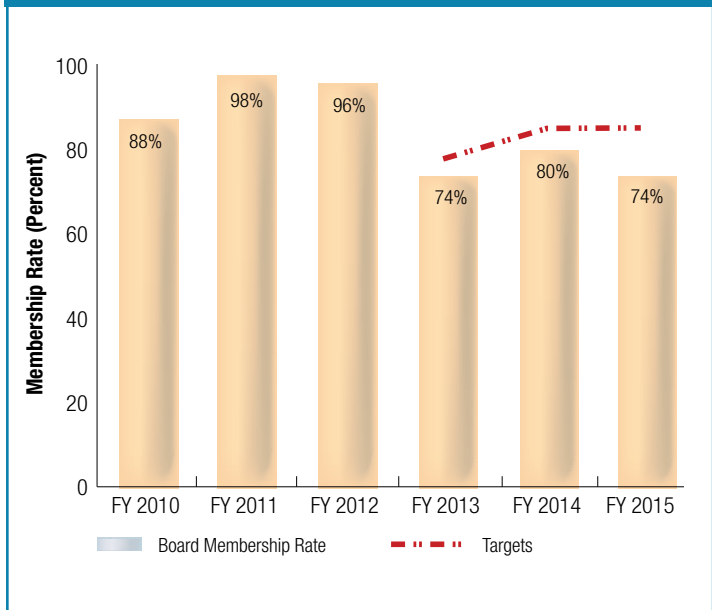
**Performance Goal:** Maintain Regional Regulatory Fairness Board membership at 85 percent or higher.

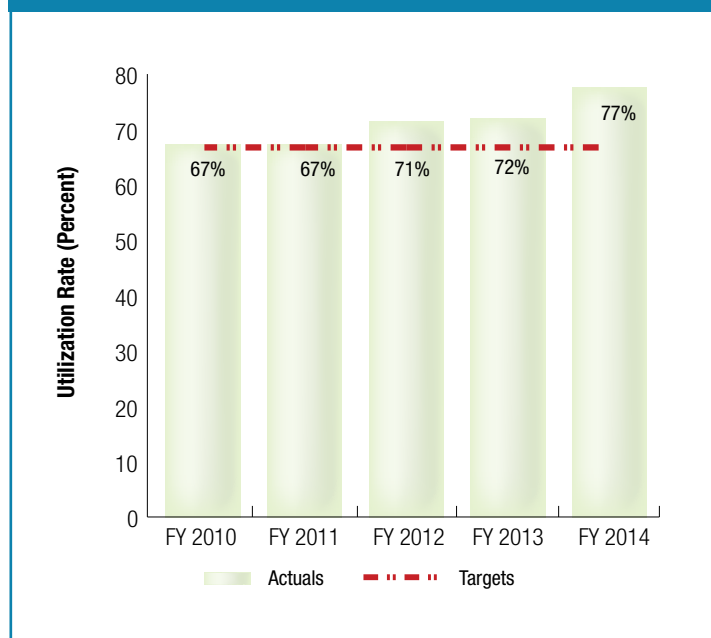
**Performance Analysis:** SBA's Office of the National Ombudsman works with federal agencies and the small businesses they regulate to provide a confidential, impartial channel for small businesses to comment on enforcement activities, audits, on-site inspections, compliance assistance, or other types of communication. SBA's Regional Regulatory Fairness Board oversees small business challenges to federal agency regulatory processes, mandates, and enforcement actions. In FY 2015, due to internal process delays and difficulty in recruitment, the SBA maintained 74 percent membership on the Regulatory Fairness Boards, 9 percent below its target of 85 percent (see **Chart XIV**)

**CHART XIII** NUMBER OF AVERAGE MONTHLY SBA.GOV SITE VISITS



**CHART XIV** BOARD MEMBERSHIP RATE



**CHART XV SBA SMALL BUSINESS UTILIZATION RATE**

**STRATEGIC OBJECTIVE 3.1:** Streamline, simplify, and strengthen SBA's core programs and operations to ensure that they are high performing, effective, and relevant to the needs of the small business community.

**Performance Goal:** Award 69 percent of SBA contracts to small businesses in FY 2015.

**Performance Analysis:** The SBA met its small business utilization goal by awarding 77.5 percent of contracts (in FY 2014) totaling \$108.7 million to small businesses (see **Chart XV**) and exceeded its sub-goals for women-owned, small disadvantaged, HUBZones and service-disabled veteran-owned businesses. Although final performance numbers are not yet certified or official for FY 2015, the SBA reached its small business utilization goal of 69 percent, as well as each of the small business utilization rate sub-goals for contract awards. The SBA was able to exceed the small business utilization rate by maintaining a default Agency position of awarding contracts to small business concerns and only resorting to large vendors when all small business options were exhausted.

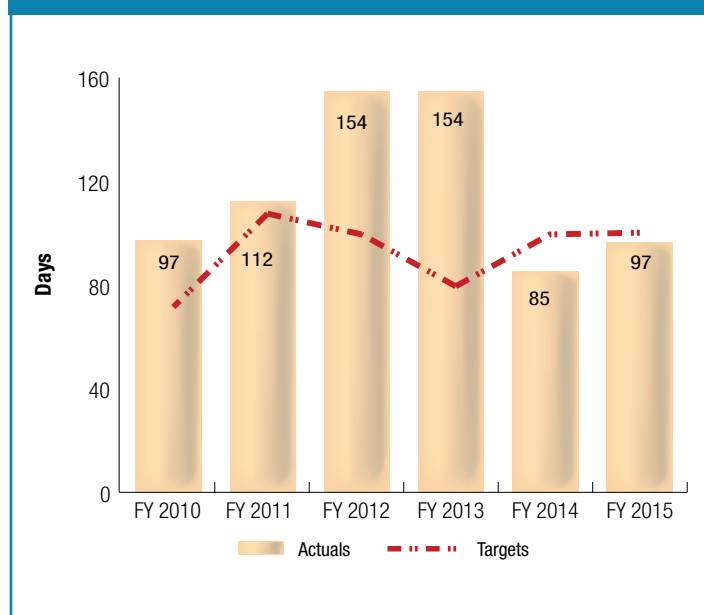
### STRATEGIC OBJECTIVE 3.2:

Invest in the Agency's employee recruitment, hiring, training, work-life programs, and performance management so staff is engaged to more effectively serve small businesses.

**Performance Goal:** Ensure that the average time to hire will be less than 100 days in FY 2015.

**Performance Analysis:** In FY 2015, the SBA continued to improve operational efficiencies which positively impacted the Agency's average number of days to hire. The SBA exceeded its FY 2015 target of 100 days by 3 percentage points (see **Chart XVI**). Fewer days to hire ensures SBA's competitiveness in recruitment efforts and ability to hire highly qualified individuals. Achievement of this goal is due to on-going enhancements to the "HR Stat 2.0" initiative. The system upgrades to recruitment

e-tools (USA Staffing and USAJobs) further streamlined recruitment decisions and onboarding new SBA employees by the Office of Human Resource Solutions.

**CHART XVI AVERAGE NUMBER OF DAYS TO HIRE**

### STRATEGIC OBJECTIVE 3.3: Mitigate risk to taxpayers and improve oversight across SBA programs.

**Performance Goals:** Perform 300 select analytical credit reviews, review 100 percent of 8(a) and 10 percent of HUBZone firms, and conduct 65 financial reviews of entrepreneurial development resource partners in FY 2015.

**Performance Analysis:** The SBA continued efforts to further mitigate risk this year. Regarding lender oversight, the Agency performed 378 analytical risk-based credit reviews which provided oversight of loan performance, credit scores, and compliance with SBA loan program requirements. The Agency conducted 66 financial reviews of entrepreneurial development resource partners (see **Chart XVII**) and an additional five financial reviews of veteran business outreach centers to review the accuracy in reporting and ensure finances were used properly. After the reviews, the SBA provided face-to-face feedback and training on issues and shared best practices. The SBA met its HUBZone and 8(a) reviews targets and ensured staff received training in order to provide small businesses with a better understanding of program eligibility requirements and compliance reviews. Unfortunately, the SBA continued to be challenged by ineligible HUBZone firms that increase risk for the small business community. Continued monitoring and enforcement will help mitigate risk to the Agency and taxpayers.

### Verification and Validation of Performance Data

Managing for results and integrating performance, financial, and budgetary information require valid, reliable, and high-quality performance measures and data. Improving data quality continues to be a priority for the SBA, and is led by the Office of Performance Management within the Office of the Chief Financial Officer. SBA performance analysts work with programs across the Agency to acquire high quality data. In addition to using output data internally from its systems, the SBA relies on data from resource partners, other federal agencies, and local governments to assess its accomplishments and effectiveness. The SBA vigorously pursues the following strategies to ensure data quality:

**CHART XVII** NUMBER OF FINANCIAL REVIEWS OF ENTREPRENEURIAL DEVELOPMENT RESOURCE PARTNERS



- Ensuring the validity of performance measures and data.* The SBA conducts an annual performance measure review to assess the validity of its measures and underlying data. SBA's performance analysts meet with each office for in-depth discussions about proposed externally reported measures. The meetings help determine whether the proposed measures and underlying data are useful for demonstrating program success, which is defined by the goals and objectives identified in the Agency's *FY 2014 - 2018 Strategic Plan*.
- Fostering organizational commitment and capacity for data quality.* The SBA issues a monthly executive performance dashboard to apprise senior management on progress and holds quarterly performance review meetings with the Deputy Administrator, Chief of Staff, Performance Improvement Officer, and program offices. At these meetings, the Agency leadership reinforces its commitment to the performance metrics and works directly with the programs to identify best practices and mitigate challenges. Annually, each Associate Administrator must certify a program's data before it is externally reported with the certifications published online along with each measure's data quality record at [www.sba.gov/performance](http://www.sba.gov/performance).

- *Assessing the quality of existing data.* SBA's performance analysts work with the programs to reconcile data by creating independent performance reports and analyses and comparing the independently generated data with the data reported by the programs. These activities not only verify the data but the underlying processes used for reporting.
- *Responding to data limitations.* The SBA works with the Office of the Chief Information Officer, the Office of Financial Systems, and the programs to identify data limitations and specify the necessary steps to improve the data. In addition, some programs rely on data provided by third-party resource partners, who are responsible for collecting, storing, and reporting data to the SBA. The programs have internal processes for working closely with their resource partners to ensure that data is correctly reported.

### DID YOU KNOW

Since 1953, the SBA has approved more than two million disaster loans for a total of **\$53.8 billion** to homeowners, renters, businesses of all sizes, and nonprofit organizations.

## Operational Portfolio Analysis

The Small Business Administration is the taxpayers' custodian of a small business loan guaranties and direct loans portfolio of \$118.8 billion. During FY 2015, the portfolio grew by \$4.3 billion, or 3.8 percent. Since existing loans are continually being paid, this growth implies that SBA's lending during FY 2015 was significantly greater than the \$4.3 billion reflected in the portfolio growth. The Agency's 7(a) loan portfolio expanded by \$4.8 billion. SBA's 504 loan portfolio contracted by \$0.7 billion, while the SBIC portfolio grew by \$1.0 billion. The Agency's Disaster loan and All Other portfolios declined \$0.5 billion and \$0.4 billion, respectively. From FY 2009 through FY 2015, nearly all (99 percent), of the portfolio's cumulative \$28.3 billion growth came from 7(a), 504 and SBIC programs (see **Chart XVIII**).

### NEW GUARANTIED LOANS

Three primary factors contributed to the loan guaranty portfolio's recent growth in outstanding balances:

*Continuous Growth in the Economy* – Real Gross Domestic Production (RGDP) in the United States grew at an

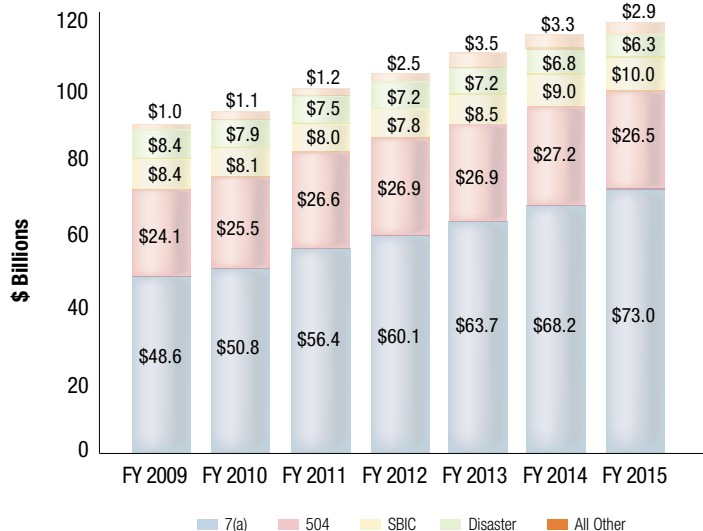
average annual rate of 1.8 percent during 2013-2015. The first half of 2015 experienced a volatile but still positive economic environment, with second quarter RGDP posting a 3.9 percent annual growth rate. This rise in RGDP increased revenues and profits at all firms, small and large, which in turn increased their demand for credit.

*Increase in Business Financial Stability* – Corporate profits, reaching record highs in the third quarter of 2014, are the primary factor determining a business's overall financial strength, including its ability to incur more debt. Data indicate that gains in corporate profits have been broadly distributed across firms of all sizes, although profit gains at small firms trail the gains at large firms. The broadly distributed increases in corporate profits allowed existing firms to increase their borrowing.

*Statutory Changes to SBA's Loan Programs* – Two changes played a major role in the growth of SBA's loan portfolio. First, a series of legislative events permanently increased SBA loan limits and temporarily lowered fees and increased guaranties. These statutory changes increased SBA's capacity to supply greater credit to small businesses.

The American Recovery and Reinvestment Act of 2009 temporarily lowered fees and raised guaranties for SBA's 7(a) and 504 loan programs, among many other provisions. Second, when the Recovery Act and the extensions ended in Q4 FY 2010, the Small Business Jobs Act of 2010 made permanent the higher loan limits and upwardly revised size standards that determine what qualifies as a small business. This in turn allowed the Agency to guarantee a greater dollar volume of loans which for some borrowers came in the form

**CHART XVIII MAKEUP OF SBA'S OUTSTANDING LOAN PORTFOLIO**



Note: Data have been rounded. See Unpaid Principal Balance Report at: [www.sba.gov/about-sba/sba-performance/performance-budget-finances/small-business-administration-sba-loan-program-performance](http://www.sba.gov/about-sba/sba-performance/performance-budget-finances/small-business-administration-sba-loan-program-performance).



of larger loans (see **Chart XIX**). These same factors also contributed to the improvement in the portfolio's financial performance.

### NEW DIRECT LOANS

In FY 2015, SBA's gross lending approvals for the Disaster Assistance program grew over \$371 million due to loans extended to businesses and individuals impacted by flooding in Texas, Oklahoma, and Michigan, and earthquakes in California. A detailed review of the portfolio indicates the high volume in FY 2006 (\$12.04 billion), which included Hurricanes Katrina, Rita, and Wilma along with an additional high volume in FY 2013 (\$2.68 billion), which included Hurricane Sandy, represents nearly 54 percent of the portfolio's outstanding direct disaster loans. The SBA will continue to make disaster loans an important recovery tool for businesses, homeowners, and renters who survive a disaster.

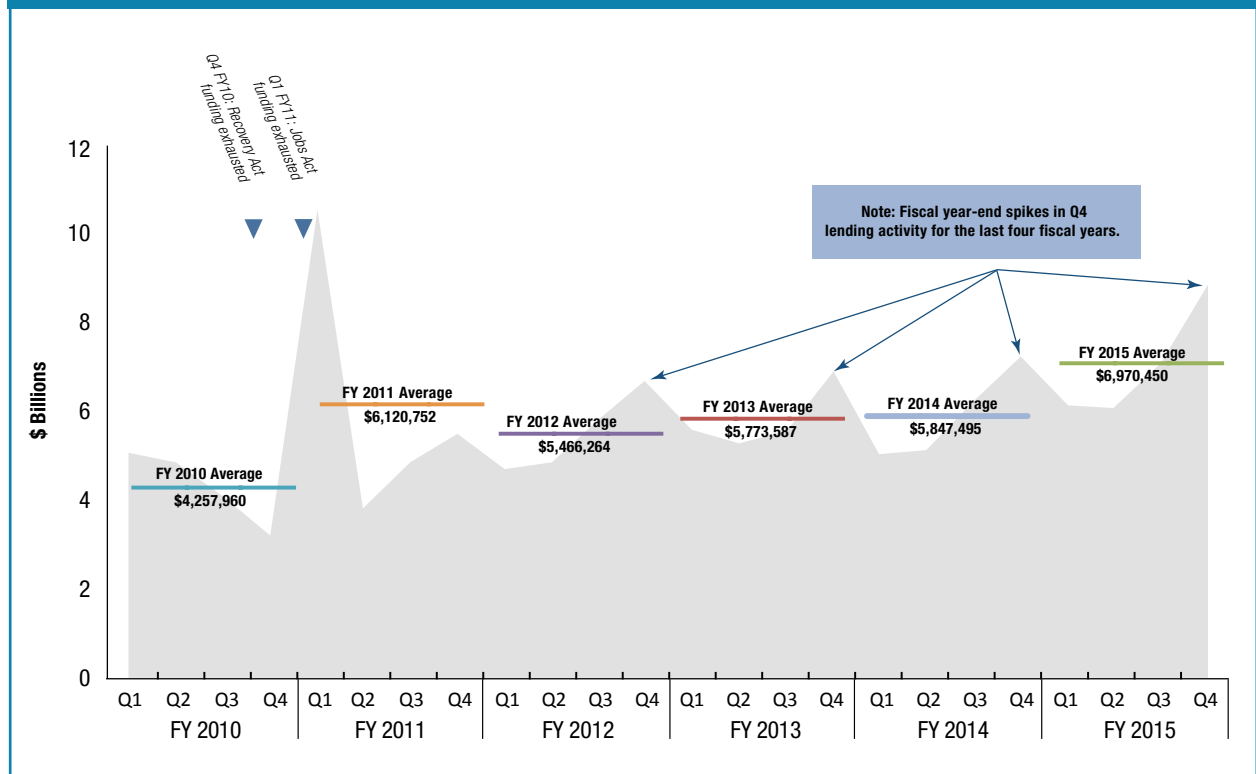
### PORTFOLIO PERFORMANCE – DELINQUENCIES

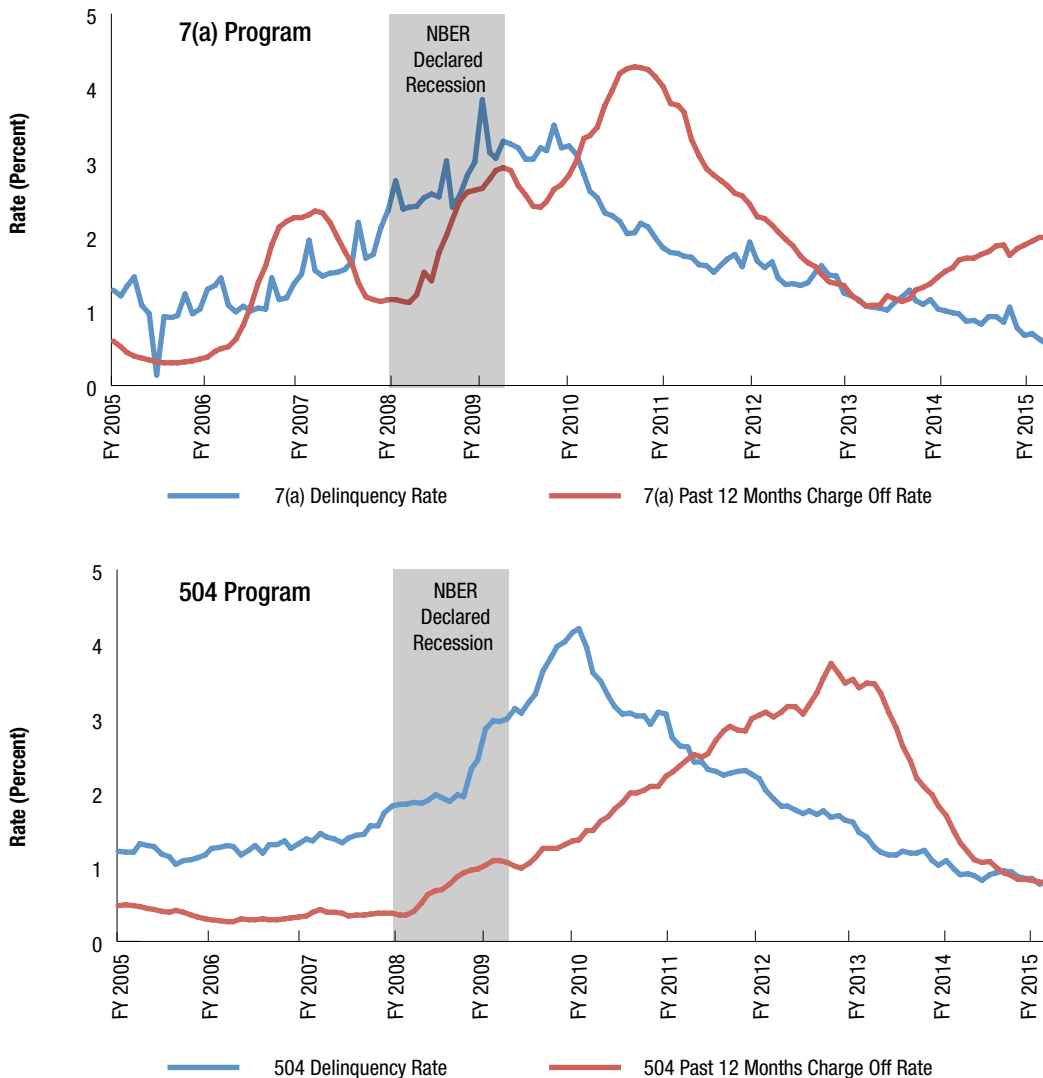
Delinquency rates (borrowers who are late on their payments) are a leading indicator of the Agency's charge-off rate (i.e. the rate of dollars spent to cover loans that de-

faulted). Thus, delinquency rates are a general indicator of the Agency's and taxpayers' future liabilities for these programs. A declining delinquency rate (see **Chart XX**) is a positive indicator for the financial performance of any loan portfolio.

Modest economic growth, strong profit performance, and tighter lending standards by financial institutions during the past several years have reduced delinquency rates for all business loans, which have been steadily declining since reaching cyclical peaks in the latter part of 2009. A declining national unemployment rate, off a peak rate 10 percent in October of 2009, is a sign of a generally improving environment for small businesses. For those businesses that survived the recession, the improved hiring is a signal of business expansion and an increase in the local demand for goods and services, improving businesses' ability to repay debt obligations. Delinquency rates for the Agency's major loan programs followed this national downward trend. Delinquency rates for the 7(a) loan program declined from the peak 3.9 percent recorded during January 2009 to 0.6 percent recorded during July 2015. Delinquency rates for the 504 loan program likewise declined from the 5

**CHART XIX** QUARTERLY GROSS 7(a) AND 504 LOAN APPROVALS



**CHART XX** DELINQUENCY AND CHARGE-OFF RATES FOR THE 7(a) AND 504 PROGRAMS BY FISCAL YEAR

percent recorded during February 2010 to 0.9 percent recorded during July 2015.

### PORTFOLIO PERFORMANCE – CHARGE-OFFS

During FY 2014 and FY 2015 the charge-off rates of the Agency's major loan guaranty programs posted diverging paths with the charge-off rates for the 7(a) loan program recording noticeable increases while the charge-off rates for its 504 program experiencing a continued downward trend.

The past twelve-month charge-off rate for the 7(a) loan program experienced a pronounced decline during the

FY 2010-2013 period, declining from 4.3 percent during the fourth quarter of 2010 to 1.1 percent in the third quarter of 2013, but then experiencing a noticeable increase thereafter, posting a 2.0 percent rate in July of 2015 (see **Chart XX**).

The past twelve-month charge-off rate for the 504 loan program experienced a continuous rise from the latter part of FY 2008 to the early part of FY 2013, peaking at 4.4 percent during January 2013, but then recorded a pronounced decline thereafter, dropping to 0.9 percent during July of 2015. This trend is not surprising since the 504 loan program is an economic development program with a commercial real estate focus. As such, recov-

ery rates of defaulted 504 loans are, with some noticeable time lag, significantly impacted by the pricing trend in this sector. Real estate prices have been on the rise since the latter part of 2009, and as of August 2015 commercial real estate prices are at about 8.1 percent above peak levels recorded during 2007.

The recent charge-off rate for the SBIC debenture program has fluctuated in a narrow band, reaching a high of 1.5 percent during FY 2011 and a low of 0.0 percent during FY 2015. The charge-off rate for the SBIC par-

ticipating securities program experienced a steady rise during FY 2008-FY 2012, peaking at 13 percent in FY 2012, but then registered a pronounced drop thereafter, posting a 0.2 percent during FY 2015.

Quarterly information on the status of SBA's loan portfolio, including outstanding balances and approvals by loan program and purchase rates, is available on SBA's website at <http://www.sba.gov/performance>.

### DID YOU KNOW

The Ash Center for Democratic Governance and Innovation at the Harvard Kennedy School recognized the **Veteran Women Igniting the Spirit of Entrepreneurship** program as part of the 2015 Bright Ideas program. Through a partnership between the SBA and the Institute for Veteran and Military Families at Syracuse University, V-WISE provides entrepreneurial training to women who are veterans, active duty military, or family members of those in service.

## LOOKING FORWARD

The SBA is committed to maintaining and strengthening the nation's economy through the growth of small businesses. While much work has been completed since the creation of the SBA, more work remains to support the American small businesses owner through a dynamic economy, ever-changing developments in technology, and the growing and always present threat of natural disasters with many of them resulting from a changing climate. While many of these challenges cannot be adequately predicted, SBA senior leadership ensures that they are considered and part of the Agency's planning process.

### A Dynamic Economy

A small business often feels the first impacts of a staggering economy. High unemployment, low wages, growing inflation, and regulatory uncertainty all determine whether or not entrepreneurs will invest their time and resources into a new venture. Without large reserves of capital like many corporations, a small business can be shuttered within months during economic decline. To meet these needs, the SBA plays a major role in supporting access to capital. As many lenders closed their doors during the Great Recession, the SBA stepped into the market with alternatives to traditional financing. However, the Agency relied and will continue to depend on lenders to issue capital, and the decline in the number of banks and credit unions is a concern for the small business community. As fewer lenders remain in operation, the small business community must become more nimble to finding capital, including through online tools, and the SBA must provide this support in an ever-changing economy.

### Advancements in Technology

It would have been unimaginable thirty years ago to obtain a loan from a bank in New York, submit a patent for a new idea to Washington, and then develop and sell

that product to an emerging market outside the United States all while working from one's home in West Virginia. Today, technology has evolved to the point where entrepreneurs have greater access to markets and more capabilities to start and expand their business. These changes require that the SBA be aware of these technological advancements to better communicate and share successes for entrepreneurs across the country. It requires that more online tools be developed and that Agency processes be adapted to the twenty-first century. As an example, this year the Agency put forward SBAOne as a new online tool to help small businesses access capital faster with new processes like online signatures. Greater advancement in technology will continue to develop and shape how small businesses operate.

### Threats from Disasters

A natural disaster can destroy lives, businesses, and communities in little time. While the SBA has many capabilities to respond to hurricanes, tornados, forest fires, and floods, the growing threat and numbers of these occurrences remain a serious concern, particularly as the climate continues to change. To this end, small businesses must adapt and become more resilient by planning in advance where to produce and sell goods and services on the market. Disaster preparedness and planning is a key component of SBA's disaster assistance program and has helped many small businesses prepare for the unexpected. At the same time, these growing threats require that the SBA be more nimble in its response and can continue to respond to multiple, large-scale disasters at once.

To address these challenges and continue enhancing customer service to its partners and small business, Agency senior leadership has instituted processes to not only help mitigate these challenges but improve performance. These areas, among others, represent ever-growing challenges and require attention from the SBA and the small business community.

## ANALYSIS AND HIGHLIGHTS OF FINANCIAL STATEMENTS AND RESULTS

## Highlights of Financial Results (September 2015)

(Dollars in Thousands)

At End of Fiscal Year	2015	2014	% Change
<b>CONDENSED BALANCE SHEET DATA</b>			
Fund Balance with Treasury	\$ 5,365,418	\$ 6,110,111	-12.19%
Credit Program Receivables and Related Foreclosed Property, Net	6,502,745	6,946,903	-6.39%
All Other Assets	152,704	127,237	20.02%
<b>Total Assets</b>	<b>\$ 12,020,867</b>	<b>\$ 13,184,251</b>	<b>-8.82%</b>
Debt	7,175,344	7,756,100	-7.49%
Downward Reestimate Payable to Treasury	1,600,653	1,637,283	-2.24%
Liability for Loan Guaranties	1,661,516	2,044,509	-18.73%
All Other Liabilities	245,324	257,911	-4.88%
<b>Total Liabilities</b>	<b>10,682,837</b>	<b>11,695,803</b>	<b>-8.66%</b>
Unexpended Appropriations	1,600,847	1,692,804	-5.43%
Cumulative Results of Operations	(262,817)	(204,356)	-28.61%
<b>Total Net Position</b>	<b>1,338,030</b>	<b>1,488,448</b>	<b>-10.11%</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 12,020,867</b>	<b>\$ 13,184,251</b>	<b>-8.82%</b>
<b>For the Fiscal Year</b>			
	2015	2014	% Change
<b>STATEMENT OF NET COST BY STRATEGIC GOAL</b>			
Goal 1: Growing Businesses and Creating Jobs			
Loan Subsidy Cost Including Reestimates	\$ (1,414,341)	\$ (1,267,469)	-11.59%
All Other Costs Net of Revenue	584,841	648,483	-9.81%
Goal 2: Serving as the Voice for Small Business	109,638	109,488	0.14%
Goal 3: Building an SBA that Meets the Needs of Today's and Tomorrow's Small Businesses	40,427	25,830	56.51%
Costs Not Assigned	34,845	17,274	101.72%
<b>Net Cost of Operations</b>	<b>\$ (644,590)</b>	<b>\$ (466,394)</b>	<b>-38.21%</b>
<b>CONDENSED STATEMENT OF NET POSITION</b>			
Beginning Cumulative Results of Operations	\$ (204,356)	\$ (369,882)	44.75%
Total Financing Sources	(703,051)	(300,868)	-133.67%
Less: Net Cost of Operations	(644,590)	(466,394)	-38.21%
<b>Ending Cumulative Results of Operations</b>	<b>\$ (262,817)</b>	<b>\$ (204,356)</b>	<b>-28.61%</b>
Beginning Unexpended Appropriations	\$ 1,692,804	\$ 1,753,736	-3.47%
Total Budgetary Financing Sources	(91,957)	(60,932)	-50.92%
<b>Ending Unexpended Appropriations</b>	<b>\$ 1,600,847</b>	<b>\$ 1,692,804</b>	<b>-5.43%</b>
<b>Ending Net Position</b>	<b>\$ 1,338,030</b>	<b>\$ 1,488,448</b>	<b>-10.11%</b>
<b>CONDENSED STATEMENT OF BUDGETARY RESOURCES</b>			
Unobligated Balance Brought Forward	\$ 5,712,247	\$ 5,433,986	5.12%
Other Budgetary Resources, Net	(24,961)	(577,710)	95.68%
Appropriations (discretionary and mandatory)	1,147,282	1,274,707	-10.00%
Borrowing Authority (discretionary and mandatory)	550,948	762,945	-27.79%
Spending Authority from Offsetting Collections	2,911,272	3,932,731	-25.97%
<b>Total Budgetary Resources</b>	<b>\$ 10,296,788</b>	<b>\$ 10,826,659</b>	<b>-4.89%</b>
Obligations Incurred, Budgetary	\$ 1,535,235	\$ 1,661,198	-7.58%
Obligations Incurred, Nonbudgetary	3,782,888	3,453,214	9.55%
Unobligated Balances, Available and Unavailable	4,978,665	5,712,247	-12.84%
<b>Total Status of Budgetary Resources</b>	<b>\$ 10,296,788</b>	<b>\$ 10,826,659</b>	<b>-4.89%</b>



## Analysis of Financial Results

The SBA prepares its financial statements as a critical aspect of ensuring the accountability and stewardship for the public resources entrusted to it. The financial statements are prepared in accordance with guidance issued by the Office of Management and Budget pursuant to the Chief Financial Officers Act of 1990. While these statements have been prepared from SBA's books and records in accordance with generally accepted accounting principles for federal entities and the formats prescribed by OMB, they are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are a component of the U.S. government, a sovereign entity.

This Analysis of Financial Results references numbers in the Highlights of Financial Results that was derived from the Financial Statements and Notes in this report. The Operational Portfolio Analysis does not reference the financial statements, but rather it provides an operational analysis of SBA's credit programs. As a result, the definitions of the loan and guaranty balances in the Portfolio Analysis section may differ somewhat from the balances used in this Analysis of Financial Results. For example, for the 7(a) loan program the total amount of guaranteed loans is used in the Portfolio Analysis, while only SBA's guaranteed portion is used in the Analysis of Financial Results, as it ties to balances in the financial statements.

### BACKGROUND

The SBA is a major federal credit agency of the U.S. Government. The SBA had roughly 3,106 employees including Disaster FTE employees at FYE 2015. As a result only \$0.9 billion of SBA's \$10.3 billion budgetary resources in FY 2015 were for salaries and expenses, with the rest being to support SBA's credit programs. Budgetary resources when apportioned by the Office of Management and Budget are available to enter into new obligations and to liquidate them. Budgetary resources are made up of new budget authority and unobligated balances of budget authority provided in previous years. The loan financing funds record all the cash flow activity resulting from post 1991 direct loans and loan guaranties, and are not budgetary costs. The financing accounts

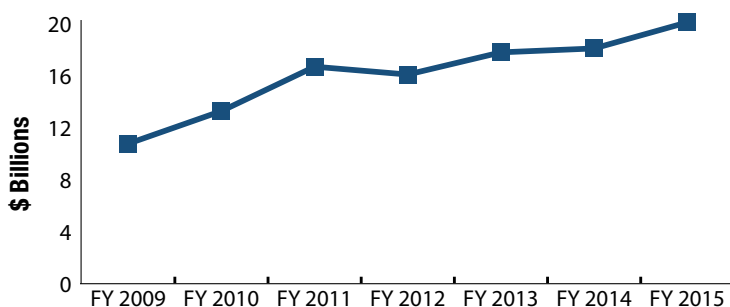
are reported separately in the Budget of the United States Government and are excluded from the budget surplus/deficit totals.

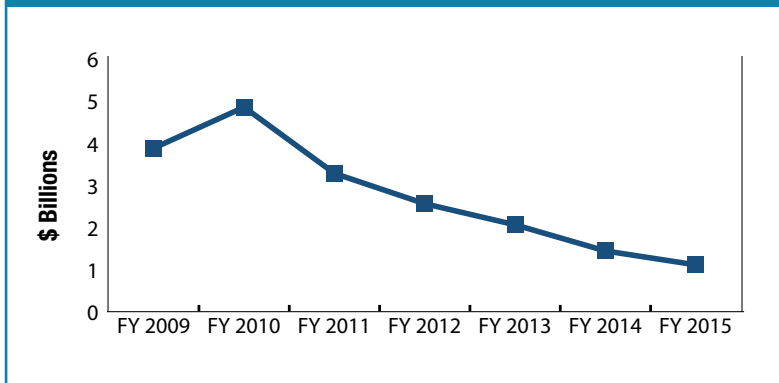
The Federal Credit Reform Act of 1990 governs SBA's accounting for direct loans and loan guaranties made in FY 1992 and thereafter. Under FCRA direct loans outstanding are reported net of an allowance developed using the present value of forecasted cash flows in subsidy models that are approved by the Office of Management and Budget. A Liability for Loan Guaranties is reported also using subsidy models with forecasted cash flows from user fees and defaulted guaranteed loans. SBA's FCRA accounting is discussed further in this section and in Notes 1 and 6A in the financial statements.

The portion of the outstanding principal guaranteed by the SBA as of September 30, 2015 was \$88.3 billion, an increase of 5.8 percent from the \$83.5 billion guaranteed at September 30, 2014 (see Note 6C in the financial statements). As shown in **Chart XXI**, new guaranties disbursed by SBA participating banks during FY 2015 were \$19.8 billion, a 9.9 percent increase compared to the FY 2014 figure of \$18.0 billion. The \$1.8 billion increase resulted from a \$0.3 billion decrease in 504 Development Company Recovery Act loans, a \$2.0 billion increase in 7(a) loans, a \$0.2 billion increase in SBIC Debentures, and a net \$0.1 billion decrease in other loan programs in FY 2015. The increase in FY 2015 guaranty disbursements and a reduction in purchases of guaranteed loans contributed to a 5.8 percent increase in outstanding guaranteed principal to \$88.3 billion in FY 2014 from the previous year.

Credit program receivables for the SBA are comprised of business and disaster direct loans and defaulted business loans purchased per the terms of SBA's loan guaranty pro-

**CHART XXI GUARANTIED LOANS DISBURSED**



**CHART XXII** PURCHASES OF GUARANTIED LOANS

grams, which are offset by an allowance for subsidy. The allowance for the subsidy cost of the gross loan receivable is recorded as a contra asset and the net asset is reported on the Balance Sheet. The subsidy allowance is determined by modeling the projected future cash inflows and outflows of SBA credit programs using discounted cash flow methodology. Loan losses, the costs of loan servicing, and loan interest rates are factors that affect the subsidy allowance.

SBA credit program receivables were valued at \$6.5 billion in FY 2015, which was a decrease of \$0.4 billion from FY 2014. The change in the credit program receivables resulted from a decrease in defaulted guaranteed business loans of \$0.1 billion and a decrease in direct disaster loans of \$0.3 billion. The amount of defaulted guaranteed loans decreased as collections and charge-offs exceeded new guaranty purchases, partially offset by a lower subsidy allowance amount. This net decrease is attributable to an economy that continued to improve in FY 2015. The amount of direct disaster loans decreased as collections and charge-offs exceeded new loans, partially offset by a lower subsidy allowance amount.

As reflected in **Chart XXII**, guaranteed loan purchases decreased \$0.3 billion in FY 2015. The decrease this year reflects the continuing recovery after the economic recession. The decrease in purchases this year did contribute in part to the decrease in the outstanding guaranteed business loans receivable after including recoveries, expenses, and charge-offs in the loans purchased portfolio.

## FINANCIAL POSITION

### Assets

The SBA had total assets of \$12.0 billion at the end of FY 2015, down 8.8 percent from FY 2014. Total assets

decreased primarily due to a \$745 million decrease in the Fund Balance with Treasury (FBWT), as well as a \$444 million decrease in Credit Program Receivables and related Foreclosed Property. The decrease in the FBWT was due primarily to downward reestimates and the reduction of Debt. The decrease in Credit Program Receivables and Related Foreclosed Property was due to the amount of defaulted guaranteed loans decreasing as the result of collections and charge-offs exceeding new guaranty purchases, as well as the amount of direct disaster loans decreasing as collections and charge-

offs exceeded new loans.

### Liabilities

The SBA had total liabilities of \$10.7 billion at the end of FY 2015, down 8.7 percent from FY 2014. Liabilities consist primarily of the Liability for Loan Guaranties, Downward Reestimate Payable to Treasury, and Debt with Treasury. The Liability for Loan Guaranties is the estimate of the net present value of the future amount the SBA will pay, net of fee collections, to liquidate expected purchases of guaranteed loans under its guaranteed loan programs. The Liability for Loan Guaranties decreased \$0.4 billion due to the year-end downward reestimate of future costs for SBA's guaranty portfolio. The downward reestimate reflects the improvement in SBA's portfolio and the economic recovery.

The Downward Reestimate Payable to Treasury decreased \$37 million due largely to the change in the year-end accrual of reestimates from downward in FY 2014 to upward in FY 2015 for the Secondary Market Guaranty Program cohorts. Better than projected loan performance across all cohorts was the primary reason for the FY 2015 downward reestimate remaining close to the FY 2014 level.

Debt with Treasury decreased \$0.6 billion due to the decrease in Disaster loan disbursements in FY 2015, as well as a large decrease in borrowing needed to cover cash shortfalls in the guaranteed loan programs. Note 9 to the financial statements provides additional detail on SBA debt with Treasury.

## Net Position

**Cumulative Results of Operations** is the accumulative difference between expenditures and financing sources since the inception of the Agency. This negative balance increased \$58 million because unfunded upward subsidy reestimates at year-end for almost every program were more this year than last year. Upward subsidy reestimates determined at year-end are funded in the following year when they are received.

**Unexpended appropriations** decreased \$92 million this year primarily because the amount of appropriations received was significantly less than the appropriations received in FY 2014 for business, disaster, and administrative activity. This affected Budgetary Financing Sources and the Ending Net Position.

## NET COSTS OF OPERATIONS

The Net Costs of Operations reflects the costs of SBA credit programs subsidy expenses during the year for new loans and subsidy reestimates at year-end, interest expense and revenue associated with the loan programs, and the cost of administering SBA's program. The loan subsidy cost is the net present value of expected cash inflows and outflows over the life of a guaranteed loan, or the difference between the net present value of expected cash flows and the face value of a direct loan. The SBA receives budget authority annually to fund its credit programs. When loans are disbursed, the SBA records subsidy expense. In accordance with the Federal Credit Reform Act, the subsidy costs are reestimated annually. Reestimates update original loan program cost estimates to reflect actual experience and changes in forecasts of future cash flows for each annual cohort of loans. Increased reestimated costs are funded in the following year by permanent indefinite budget authority, while decreased costs are returned by the SBA to a Treasury general fund.

Despite the small increase in upward reestimated costs for FY 2015, the end result was still a net downward reestimate which affected Strategic Goal 1 costs. Those subsidy reestimates were the largest components of the change (net decrease) in the Agency's net cost. **Chart XXIII** reflects the decreases in the subsidy reestimates for the Guaranteed Business and Direct Disaster loan programs in FY 2015.

There was a downward reestimate in the 7(a) loan programs. The downward reestimate of \$0.2 billion was due mostly to lower than average purchases during FY 2015 that decreased the overall purchase curve, in turn decreasing purchase projections in future years and contributing to the downward reestimate for FY 2015.

The 504 Recovery Act and 504 Jobs Act loan programs had a significant downward reestimate of \$1.0 billion due to better than projected FY 2015 loan performance. Further detail on subsidy reestimates can be found in Note 6I to the financial statements in the Financial Reporting section of this report.

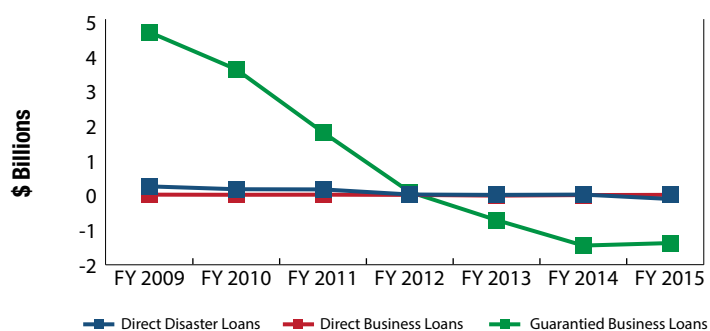
The SBIC Participating Securities and Debenture programs had a downward reestimate of \$0.2 billion in FY 2015 that was due mostly to better than projected loan performance. Actual recoveries were higher than projected, and actual default purchases were lower than projected in FY 2015.

## BUDGETARY RESOURCES

Total Budgetary Resources of \$10.3 billion decreased \$0.5 billion in FY 2015. This decrease is the net result of less spending authority from offsetting collections this year and the other factors in the Highlights table and discussed here. Other Budgetary Resources, Net increased by \$0.6 billion in FY 2015. This increase is attributable to a smaller repayment of borrowings from prior year balances, offset with a decrease in prior year recoveries in FY 2015.

Appropriations (discretionary and mandatory) decreased \$0.1 billion in FY 2015. As shown in **Chart XXIV** the decrease was the combination of the decrease in the amount of appropriations needed to fund SBA's upward

**CHART XXIII CREDIT PROGRAM SUBSIDY REESTIMATES**



credit subsidy reestimates, as well as a reduction in the need for subsidy to fund the Agency's major loan programs in FY 2015.

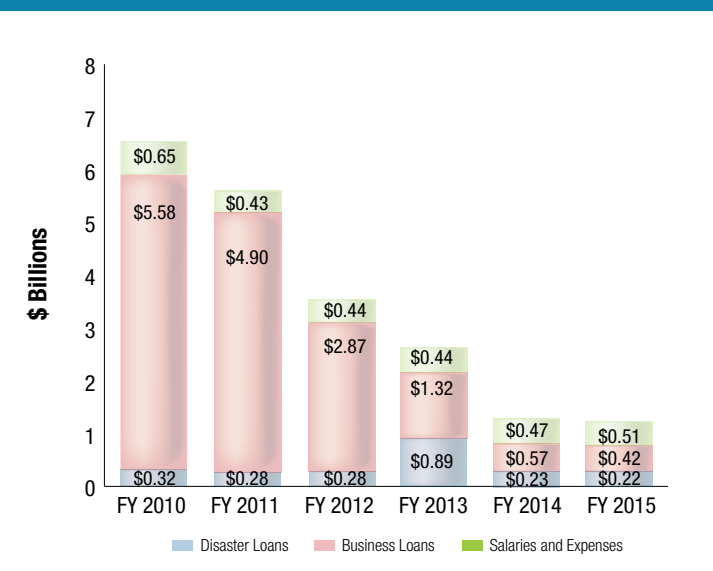
Borrowing Authority decreased \$0.2 billion in FY 2015 due to a decrease in borrowing needed to cover cash shortfalls in the guaranteed loan programs. Borrowing authority initially granted to the SBA was \$1.2 billion, but the SBA withdrew \$0.7 billion at year-end FY 2015 as it was not needed to fund future credit program operations.

Spending Authority from Offsetting Collections decreased \$1.0 billion in FY 2015. A significantly higher amount of current year collections were used to repay borrowings in FY 2015, thus resulting in a lower ending balance. Additionally, there was a small decrease in FY 2015 collections received for subsidy this year.

## STATUS OF BUDGETARY RESOURCES

The Total Status of Budgetary Resources of \$10.3 billion decreased \$0.5 billion in FY 2015. Budgetary obligations decreased by \$0.1 billion in part because of a subsidy rate decrease in FY 2015 for the 504 CDC program. Nonbudgetary obligations increased \$0.3 billion due to the increase in obligations related to financing fund reestimates, offset with decreases in direct loan making and purchases of guaranteed loans.

**CHART XXIV** APPROPRIATIONS RECEIVED



Unobligated balances at September 30, 2015 and 2014 were \$5.0 billion and \$5.7 billion which include \$3.5 billion and \$3.7 billion of unavailable unobligated balances. These balances were unavailable because they were unapportioned by OMB. The SBA accumulates the majority of unobligated balances in its nonbudgetary financing accounts (\$3.7 billion in FY 2015 and \$4.3 billion in FY 2014) from subsidy estimates and reestimates that are used primarily to pay default claims in future years.

## DID YOU KNOW?

In FY 2015, the SBA conducted more than 380 training events for small business exporters, reaching over 8,000 small businesses. Approximately 1,500 small businesses received more than **\$1.45 billion** in SBA financing. Of special note is the 38 percent growth in international trade loans from FY 2014 to \$394 million in FY 2015.

## ANALYSIS OF SBA'S SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

### Internal Control Environment

The SBA believes that maintaining integrity and accountability in all programs and operations is critical for good government. The ability to demonstrate consistent responsible stewardship over assets and resources is a sign of responsible leadership. SBA's commitment to integrity and ethical values combined with an effective system of internal controls ensures that every employee remains dedicated to the efficient delivery of services to customers and maximizes desired program outcomes. The SBA has developed and implemented management, administrative, and financial system controls to reasonably ensure that:

- programs and operations achieve intended results efficiently and effectively;
- resources are used in accordance with the mission of the Agency;
- programs and resources are protected from waste, fraud, and mismanagement;
- program and operation activities are in compliance with laws and regulations; and
- reliable, complete, and timely data are maintained and used for decision-making at all levels.

Each office within the SBA implements internal controls to achieve programmatic goals as well as controls over operations, reporting, and compliance. Each year, the SBA conducts an assessment of internal control as required by the Federal Managers' Financial Integrity Act of 1982. The FMFIA also requires that the assessment results be reported to the President and the Congress in a statement of assurance. The SBA Administrator provides the statement of assurance based on the self-assessment of program managers, internal control reviews, and audits and reviews done by the Government Accountability Office, and SBA's Office of the Inspector General. SBA's Office of Internal Controls (OIC) provides training on assessing internal controls and tools, including a checklist designed specifically for district offices, to assist management in documenting the adequacy of controls within their area of responsibility.

In support of internal control assessments, the OIC oversees the requirements of the Office of Management and Budget's revised Circular No. A-123, Appendix A, Internal Control Over Financial Reporting. The Senior

Assessment Team (SAT), chaired by the Chief Financial Officer and comprised of SBA managers from the major programs and support offices directed compliance with the circular. The SAT employed, a risk-based approach in the selection of processes and systems for a more robust internal control evaluation. Additional reviews requested by SAT members covered some business processes that had no material impact on the financial statements, but did present some potential for risk or exposure to the Agency. The OIC documented the process and key controls, evaluated and tested the design and effectiveness of controls and presented the results to the SAT. Each office is responsible for developing and implementing corrective actions for any reported deficiencies. Based on the evaluation of nine business processes in FY 2015, the OIC identified a number of deficiencies in the internal control over financial reporting, including several in SBA's key business processes. The SAT evaluated the review findings and determined that none reached the level of material weakness.

In April of this year the Administrator established the SBA Enterprise Risk Management Board to oversee and guide SBA's enterprise risk management efforts. In addition to identifying, evaluating, and establishing ownership of cross-Agency risks, the Board will assess and advise on enterprise risk, recommend risk avoidance, tolerance, mitigation, corrective actions, and serve as champions to introduce enterprise risk management best practices to the SBA. Collecting and managing all types of risk (such as reputational, financial, information technology, and operational) from all areas of the SBA will provide the highest levels of management valuable information on which to base decisions.

This year, the SBA continued to have a significant deficiency in information technology security controls, to include access controls and change control. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the company's financial reporting. To address these deficiencies, the SBA invested in the following key initiatives during FY 2015:

- use of patch, configuration and IT asset management tools that provided enhanced capability in hardware and software management, vulnerability



management, configuration management, and anti-virus management; the SBA will continue to invest in efforts to develop logical access policies and improve compliance for identity management and access controls;

- investment to replace aging network infrastructure;
- migrated the user community from Microsoft XP to Windows 7;
- required use of PIV cards to log onto SBA's network; policies have been established to enforce utilization of PIV cards for both physical and logical access; and
- completion of Annual Agency-wide IT security training by 100 percent of SBA employees and contractors.

## Financial Management Systems Strategy

Financial management systems at the SBA are designed to support effective internal control, produce reliable, timely financial information, and ensure cost effective loan guaranty processing. Management remains focused on robust financial management systems that improve SBA's ability to comply with laws and regulations, provide timely and accurate data to support management analysis and decision-making, enable the Agency to keep pace with its lending partners, and effectively use automation to achieve operational efficiency.

As demonstrated throughout this Agency Financial Report, the SBA seeks to comply with all federal financial management system requirements and there have been no deficiencies identified under the Federal Financial Management Improvement Act of 1996.<sup>4</sup>

The SBA completed a series of incremental improvement projects designed to modernize the financial management systems to improve financial system controls, reduce sustainment costs, provide additional functionality for

external lending partners, and prolong system useful lives. These projects include the migration of the systems to more current technology platforms and relocation to modern data centers that provide expanded capability for continuity of operations.

In addition to modernization of the financial system platforms, the incremental improvement projects added missing functionality to the financial systems, building improved integration between the systems, improving consistency of data, enhanced reporting capability, and improving SBA's automation of funds control for loan programs and loan subsidy.

The incremental improvement projects enhance SBA's financial system controls over lending programs and provide for improvement in accessibility to common information, financial and budget management, and financial reporting. Core financial systems at the SBA are comprised of three systems operated and managed by the offices of the Chief Financial Officer and Capital Access. The systems include:

- *Oracle Federal Financials* – Upgraded to the most current release, this Commercial Off-The-Shelf (COTS) package is used for budget execution and management for administrative activity.
- *Loan Systems* – SBA-built systems used to support the lifecycle of loan guaranty processing, loan program funds control, management and accounting for loan servicing, and loan related expenses.
- *Financial Management System (FMS)* – SBA-built system used to consolidate administrative and loan activity, manage cash and control funds, and provide financial reporting.

<sup>4</sup> The purpose of the Federal Financial Management Improvement Act of 1996 (FFMIA) is to advance federal financial management by ensuring that federal financial management systems provide accurate, reliable and timely financial management information to the government's managers. Core components include applying uniform accounting standards across the federal government; full disclosure of all federal programs and activity; increasing the accountability, creditability, performance, productivity and efficiency of federal financial management; establishing financial systems to control the cost of federal government; and increasing the capability of agencies to monitor budget execution by comparing spending to results of activities. Compliance with the FFMIA provides the basis for the continuing use of reliable financial management information by program managers, and by the President, the Congress, and the public. (Office of Management and Budget, [http://www.whitehouse.gov/omb/financial\\_ffmia](http://www.whitehouse.gov/omb/financial_ffmia))



## Management Assurances:

### FMFIA and FFMIA Assurance Statement for FY 2015

The Small Business Administration continued to strengthen internal controls over its programs and operations during FY 2015. Creating and sustaining a culture of responsibility and accountability while eliminating and preventing waste, fraud, and abuse is critical to meeting our mission at the SBA. I am pleased to report that the SBA continues to achieve its internal control objectives.

SBA management is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objective of the Federal Managers Financial Integrity Act (FMFIA). The SBA conducted its assessment of internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular No. A-123, Management's Responsibility for Internal Controls. Agency managers have issued assertions to me as to the status of their FY 2015 internal controls in their areas of responsibility. These assertions are supported by internal testing, checklists, and other management reviews. Although a few Agency managers reported some operating deficiencies, these were not of a material nature. Based on the results of these evaluations, I can provide reasonable assurance that internal controls over operations and compliance with applicable laws and regulations, as of September 30, 2015, were operating effectively and no material weaknesses were identified in the design or operation of those internal controls. Further, the Agency's financial management systems conform to the principles, standards, and related requirements prescribed by Section 4 of FMFIA.

The SBA conducted its assessment of the effectiveness of internal controls over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular No. A-123. Based on the results of this evaluation, I can provide reasonable assurance that internal controls over financial reporting were operating effectively and no material weaknesses were identified in the design or operation of internal controls over financial reporting for FY 2015.

SBA's independent auditor issued an unmodified opinion on the Agency's FY 2015 financial statements for the eleventh year in a row. However, the auditor again identified an instance of non-compliance with applicable laws and regulations as of September 30, 2015. Specifically, not all co-borrowers and guarantors on charged-off 7(a), 504, and disaster loans were referred to the Department of the Treasury for debt collection as required by the Debt Collection Improvement Act (DCIA).

The SBA has a DCIA Compliance Team comprised of representatives from the Office of Capital Access' Office of Financial Program Operations, the Office of Performance Systems Management, and the Office of the Chief Information Officer who work together to identify and resolve problems pertaining to the implementation of the DCIA. Significant improvements have been initiated and implemented since last year. For example, progress has been achieved this year since we completed the legacy mainframe migration but data issues persist that have proven challenging to complete compliance status. The DCIA compliance team meets regularly and works aggressively to achieve the remaining issues with the complicated transfer protocol as well as to review other issues affecting referrals so business rules can be adjusted.

This year the SBA also identified an issue with potential non-compliance of the Antideficiency Act. While the dollar amounts involved are negligible, the SBA has corrected the matter to the best of its ability and is preparing reports for the President and Congress as required by the law.

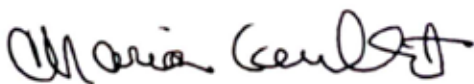
The Agency's efforts to reduce improper payments met with mixed results this year. The Disaster loan disbursements achieved compliance with OMB Circular A-123, Appendix C with an 8.13 percent improper payment rate, significantly reducing its 12 percent FY 2014 improper payment rate. Conversely, the improper payment rate for disbursements for goods and services related to contracts increased from 8.46 percent reported in FY 2014 to 13.52 percent this year. A majority of the errors found were related to contract documentation discrepancies and payments made to incorrect vendor bank accounts, which were valid bank accounts of the vendors, but differed from those registered in the System for Award Management (SAM). Because the root cause of the improper payments were administrative and documentation errors, the estimated total recapture is less than \$6,000. All goods and services were received and there was no fraud detected during the review. The Deputy Chief Financial Officer and the Director of the Denver Finance Center are aggressively developing a corrective action plan to enhance their internal controls over improper payments for goods and services to come into compliance. The other programs' improper payment rates varied slightly from FY 2014, without a significant upward or downward movement.

The Federal Financial Management Improvement Act (FFMIA) requires federal agencies to implement and maintain financial management systems that are in substantial compliance with federal financial management systems requirements, federal accounting standards, and the United States Standard General Ledger. Based on the FFMIA criteria, I can provide reasonable assurance SBA's financial management systems substantially comply with FFMIA for FY 2015.

SBA's independent auditor reported significant deficiencies in Information Technology (IT) security. The issues relate to access controls, change controls, and vulnerability management. To address many of the issues identified by the auditors, the SBA made major investments in replacing aging network and infrastructure technology in FY 2015, the results of which should be fully realized over the next fiscal year. The SBA anticipates these investments will resolve the deficiencies noted.

In compliance with OMB Circular A-11, Section 51.3, the Chief Information Officer (acting) and the Associate Administrator for Performance Management and Chief Financial Officer have provided a signed statement that attests:

- The SBA Chief Information Officer (acting) reviewed and approved the major IT investments portion of the SBA budget request;
- The SBA Chief Information Officer (acting) had a significant role in reviewing planned IT support for major program objectives and significant increases and decreases in IT resources; and
- The SBA IT portfolio includes appropriate estimates of all IT resources included in the budget request.



Maria Contreras-Sweet  
Administrator  
November 16, 2015

## Improper Payments Summary

Improved financial performance through the reduction of improper payments continues to be a key financial management focus of the Federal government. SBA management continually develops strategies to reduce improper payments for responsible stewardship of public assets.

The Improper Payments Information Act of 2002 (IPIA), its amendments, and as implemented by OMB in Circular No. A-123, Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments, requires SBA management to review programs and activities to identify those that are susceptible to significant erroneous payments and estimate annually the amount of erroneous payments made in those programs deemed risk susceptible. SBA management performs testing to estimate the rates and amounts of improper payments, establishes improper payment reduction targets in accordance with OMB guidance, and develops and implements corrective actions.

The SBA has nine programs and activities that are subject to improper payment reporting: the 7(a) loan program (approvals and purchases), the Certified Development Company (504) loan program, the Disaster loan program, disbursements related to goods and services, and programs

or activities funded with Hurricane Sandy disaster relief funds, which include grant programs and disaster related administrative expenses of payroll, purchase cards, and travel. The Small Business Investment Company program, a major credit program, retained approval from OMB for relief from reporting.

The detection and remediation of improper payments is a priority for the Agency. SBA staff monitor and review for improper payments and are charged with implementing improvements that will reduce improper payment rates. The SBA also continually seeks opportunities to enhance and implement internal controls to reduce the risk for improper payments.

The Agency's primary concern in its improper payment reporting stems from administrative and documentation errors which are caused by the absence or completeness of supporting documentation necessary to verify the accuracy of a payment. Detailed information concerning SBA's improper payment reviews and its efforts to reduce improper payments is presented in the Other Information section of this report.

### DID YOU KNOW

For the second consecutive year, in FY 2014, the federal government exceeded the 23 percent small business contracting goal, purchasing **\$91.7 billion** in goods and services from small businesses. This represents 24.99 percent of all eligible federal spending and supports more than **550,000** jobs in the American economy.

## SUCCESS STORY

### Florida Small Business Person of the Year

Craig Technologies  
Cape Canaveral, Florida



**Carol Craig** considers herself an accidental entrepreneur. After leaving the U.S. Navy where she served as a Naval Flight Officer, she founded Craig Technologies in 1999. The Florida Small Business Development Center and a \$150,000 SBA-backed loan helped Carol realize her small business dreams. Craig Technologies is a woman-owned, service-disabled, veteran-owned, SBA 8(a)-certified firm specializing in systems engineering, project management, infrastructure installation, software design, and custom avionics.

What began as a one-woman business rapidly grew when the company received its first government contract in 2005. Today, the company manages more than 30 contracts with more than 20 government agencies and has nearly 400 associates in over 20 different states and \$45 million in revenue.

Craig Technologies offers a wide scope of award-winning engineering and technical solutions. Its nationally-recognized Aerospace & Defense Manufacturing Center in Cape Canaveral offers a unique end-to-end design-to-production capability that includes specialty manufacturing, custom avionics, precision machining and fabrication, and test and evaluation services.

The National Defense Industrial Association presented Carol with the Kathleen P. Sridhar Small Business Executive of the Year Award in 2013. Florida Trend magazine listed Craig Technologies as one of Florida's Best Companies to Work For in 2011 and 2013.